# FINANCIAL TIMES



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**Hong Kong** Lessons for Europeans

Catalan election Big step forward for the right



Today's surveys South Africa Hungary

Separate Sections

World Business Newspaper

TUESDAY NOVEMBER 21 1995

### Mandela calls on Shell to exert more pressure on Nigeria

South African president Nelson Mandela told executives of Shell South Africa that the oil group was not doing enough to exert economic pressure on the Nigerian regime. Mr Mandela also called for a regional summit to discuss measures against Nigeria's military leaders, in the wake of the execu-tion of nine mineral rights activists this month. Page 15: Observer, Page 15; South Africa survey,

Balkan peace talks drag on: Efforts to end the war in Bosnia ran into unexpected difficulties as haggling over territory dragged on beyond the deadline set by the US organisers of peace talks. The delay cast doubt over the viability of an elaborately of the Double Page 16: crafted Bosnian peace process. Page 16; No-nonsense diplomacy in Dayton, Page 3

Poll boosts Spain's Popular party: The hopes of Spain's conservative Popular party for an absolute majority in next March's general election were boosted by its performance in Sunday's Catalonian regional polls. It raised its representation in the 135-member regional legislature from seven to 17. Page 2; Polls punish a powerbroker, Page 14

Greek premier is rushed to hospital



POVINCE

-hes

Greek prime minister Andreas Papandreou was diagnosed as suffering from pneumonia after being rushed to hospital. His condition was said to be "satisfactory". News of his illness triggered a wave of selling on the Athens stock exchange and put the drachma under pressure against the D-Mark. Mr Papandreon, 76, made a strong recovery after undergo-

ing open-heart surgery in 1988, but has grown increasingly frail since leading the Panhellenic Socialist Movement back to power at a general election two years ago. Page 8

Italgas ahead in Hungary sale: A consortium led by Italian gas company, Italgas, emerged ahead of several other leading European energy companies as the top first-round bidder for Hungary's regional gas distribution companies. Page 17

Go-ahead for Russian elections: Russia's constitutional court cleared the way for parliamentary elections to take place on December 17. It refused requests to tackle alleged flaws in the country's electoral law. Page 2

EU set to back pact with US: European Union foreign ministers were set to endorse an ambitious co-operation pact with the US aimed at forging closer links, including the creation of a barrier-free transatlantic trade regime. Page 4

Kashmiri rebels offer deal on hostage: Separatist guerrillas holding four Westerners hostage in Kashmir offered to free two sick captives in exchange for a jailed militant.

**End seen for US strikes:** Two big US strikes at aircraft manufacturer Boeing and heavy equipment maker Caterpillar looked to be heading for a peaceful resolution. Page 8

Mitsubishi Chemical, Japan's largest chemicals company, is hiving off-its plastics business into a Y170bn (\$1.7bn) venture with Tonen Chemical, subsidiary of oil refiner Tonen. Page 17; Lex, Page 16

Three killed as aircraft hits building: Three people were killed after a small private aircraft crashed into an apartment building in heavy fog in the Los Angeles suburb of Fullerton.

Former Nazi extradited: Former Nazi officer Erich Priebke, 82, was extradited from Argentina to Italy to face trial for his alleged role in the massacre of 335 men and boys outside Rome in 1944.

Diana programme nets \$1.5m for BBC; Payments to the BBC for the right to broadcast last night's television interview with the Princess of Wales outside the UK are thought to have exceeded film (\$1.50m). Page 10; Editorial Comment, Page 15 Charity buys former Beatle's home: Former

Beatle Paul McCartney's childhood home was bought by the National Trust, a charity better known for preserving the stately homes of Britain. The announcement came as the Beatles launched their first album in 25 years.

New print site for FT: The Financial Times today adds Madrid to its list of worldwide print sites. The presses of Lagar, the Madrid printer, join print centres in Frankfurt, Jönköping, Leeds, London, Los Angeles New Jorcev Roubin and Walnut

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### France raps EU partners for N-test 'hypocrisy'

Paris fears rift is threat to a common defence policy

By Lionei Barber in Brussels

France yesterday accused European Union partners of hypocrisy for falling to support its nuclear testing programme, escalating a row which has polarised the EU.

The French charge reflects alarm in Paris that anti-nuclear opposition is creating a division inside the EU which will jeopardise hopes of building a common European foreign and defence

These fears grew last week after Nato members such as Italy and Belgium joined more pacifist countries led by the Scandina-vians and Austria in supporting a UN motion deploring the French tests in the South Pacific.

Mr Hervê de Charette, French foreign minister, said in Brussels yesterday that France regretted the lack of solidarity between EU member states. "France has no intention of bending on issues it considers of national importance," he said.

Britain, Spain and Greece voted against the UN motion, while Germany abstained. President Jacques Chirac of France reacted last Friday by cancelling meetings with the leaders of Belwithin the EU club. Mr de Charette said that days

before the UN assembly vote EU partners had signed a text in Madrid which declared that British and French nuclear forces contributed to European security. "You've got to be very hypocritical to say 'white' one day and black' the following day." Mr de Charette did not raise

the UN vote inside the meeting of EU foreign ministers. Aside from his verbal barrage, he tried to low blow."

contain the row over nuclear testing. "There is no crisis in the Union and there will be no crisis," he said.

EU member states which lined up against France in the UN vote declined to react to Mr de Charette's charges of hypocrisy, though several pointed out their

stances reflected parliamentary sentiment in their own countries. Mr Niels Helveg Petersen, Dan-ish foreign minister, who is often outspoken in his anti-nuclear remarks, noted France's intention to sign and ratify an interna-tional treaty banning nuclear tests next summer.

But senior French officials said their government was drawing broader conclusions about the future of European defence co-operation as a result of the cleavage inside the EU over nuclear tests.

One diplomat complained that the union was no longer working as a unit of 15, and was encouraging the major powers such as Britain, France, and Germany to pursue diplomacy outside EU forums - as had occurred during the most recent stages of the Bos-

Mr de Charette said it was obvious from the nuclear row at next year's inter-governmental conference would not be easily

Asked about the decision by Mr Alain Juppé, France's prime minister, to cancel a meeting with Mr Paavo Lipponen, the Finnish premier, over Helsinki's opposition in the UN vote. Mr de Charette said: "It is difficult to get together to exchange smiles with a friend and say everything is OK when you have just been dealt a

### Revlon to follow Lauder

By Alice Rawsthorn in London

market

Revion, one of the world's largest cosmetics companies, plans to go public early next on the New York stock market. The flotation of Revion, which is controlled by Mr Ronald Perelman, the flamboyant US financier, follows shortly after that of Estée Lauder, one of its chief competitors which completed a

\$335m share sale in New York Revion, which owns a string of best-selling cosmetics brands including Ultima skin care, ColorStay lipstick and Charlie perfume, has registered its intention to go public with the stock market authorities and has appointed Merrill Lynch and CS First Boston as underwriters to

It declined to comment on the value or size of the issue. How-ever it is understood that Mr Perelman, whose master company, MacAndrews, Forbes Holdings also owns Marvel comic books and First Nationwide Bank of the US, will retain at least 80 per cent of the equity. Revlon executives have in the past valued the group at around

\$4.7bn. However, New York analysts have estimated the highly leveraged company's value considerably lower at \$2.7bn.
The share sale will be Mr Perelman's second attempt to take Revion public since he acquired

the company for \$1.8bn in 1986

after one of the most controver-

stal hostile takeover bids of the mid-1980s. He was forced to cancel plans for a 1992 flotation because of poor market condi-Revion has had a turbulent time since the Perelman takeover. The company was founded in 1932 by the Revson brothers,

Charles and Joseph, with a cos-metics chemist, Charles Lachman, who developed its first product, a revolutionary new nail polish. It flourished in the buoyant post-war climate. Mr Charles Revson made his name as one of

young, liberated women. However Revion's fortunes

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### Ex-communist clinches power in Polish elections



Ex-communist Aleksander Kwasniewski yesterday clinched a narrow win over Lech Walesa in Poland's presidential elections. Mr Kwasniewski, above with his wife, Jolanta, won a 51.72 per cent share of the poll, which revealed a country divided Report, Page 16

#### Dow breaks 5,000 on hopes of end to US budget feud By Lisa Bransten in New York to stock The Dow Jones Industrial Average tantalised investors by

breaching 5,000 points for the first time yesterday, only nine months after it climbed through 4,000, but twice beat a retreat in uncertain trading. The index has risen on investors' expectations that the feud over the US budget would be set-

tled, spurring the Federal December. The index ended last week just 10 points shy of 5,000. However, news that the White House and Congress had agreed on Sunday to a stop-gap funding measure to re-open the government gave only a little fresh momentum to the market because the good news was already priced in. Adding to last week's upward push was Friday's expiration of options on shares and share indices, which caused investors to buy shares to unwind their positions.

At 1.30pm in New York yester-

day the Dow was 5.78 points up at 4,995.73, having climbed as high as 5,003.68 earlier. The 30year Treasury long-bond slipped 1 to 1081 to yield 6.237 as the bond market absorbed new sup-

terday and today.

Ms Gail Dudack, chief investment strategist at UBS Securities, was bullish on the near-term prospects for the market once it moves through 5,000. "I think

ply from two Treasury depart-

ment auctions scheduled for yes-

5,000 is a psychological hurdle and once we get through that decisively then we'll probably

move another 10 per cent relatively quickly," she said. Despite yesterday's edginess, the market has been on a strong upward path since the start of the month after trading in a range around 4,800 for most of September and October as investors worried that third quarter earnings would not meet market

Ms Abby Cohen, US market strategist at Goldman Sachs, believes the market will be strong through next year, but warns that there are risks because the torrid pace of earnings growth seen through most of this year is likely to cool. Also she said, there is room for a sell-off if the final budget package does not meet expectations.

> Next budget battle, Page 8 Editorial Comment, Page 15 Lex, Page 16 World stocks, Page 36

### Daiwa to halve its foreign-held assets

By Gerard Baker in Tokyo

Daiwa Bank, under instructions by authorities in Japan and the US to curb its overseas operations, said yesterday it would cut its international assets by half within a year.

The plan, prepared at the behest of Japan's Finance Ministry, commits Daiwa, one of the country's largest banks, to imple-ment drastic reductions in its lending, securities holdings and financial trading operations.

The ministry required Daiwa to submit the plan after US authorities had ordered it earlier this month to shut its US operations by February 2 for the alleged conealment of \$1.1bn in bond trading losses at its New York

Officials said the ministry was satisfied with the proposals. "We examined the measures and considered them to be drastic enough, so we accepted them," said one. The ministry had rejected an earlier plan by Daiwa as insufficiently draconian. The bank must complete implementation by October 1996 and report progress to the ministry every

week between now and then.
Daiwa said assets related to its international operations, held at home and abroad, would be reduced by 50.5 per cent. The company's loan balance would fall by 30.1 per cent, while securities holdings would drop by 50.2 per cent. The bank added that it

would also cut market-related business, such as bond dealing, at its offices abroad. The reduction in assets was equivalent to 11.1 per cent of Daiwa's total assets of Y18,300bn (£115bn) as of the end of March.

The bank did not say how the assets would be sold, but at least some of them are expected to be bought by other Japanese banks such as Sumitomo Bank, which has said it will assist Daiwa in withdrawing from the US. The US and Japanese sanc-

tions, imposed at a time of international concern over the health of Japan's financial system, were the most severe ever ordered against a leading Japanese bank. Daiwa also faces a 24-count criminal indictment in a New

York court for alleged fraud. The indictment is based on charges that executives of the bank were told of the bond trading losses in New York in late July but failed to report them to US authorities until September. Daiwa has said it will fight the indictment.

The bank, which must also submit a management reform plan to the Finance Ministry by January 15, has already said it will cut more than 2,000 staff, 25 per cent of its total, from its domestic and overseas operations. Daiwa's presence in international markets has not been as significant as many of its Japanese rivals, and the

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Intl. City) Miles

the most ruthless and dynamic executives in the US. One of Revion's great suc-cesses was Charlie, which became an international besiseller in the 1970s as one of the first perfumes aimed at

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### We are turning managers into owners CVC backs managers in the acquisition of companies. We provide the funds and the know-how. As an independent investment advisor, and the exclusive advisor to Citicorp for its venture capital investments in Europe, we have led over 90 MBOs with a total transaction value of almost \$12 billion (£7.5 billion), and taken many of them public. If you are a manager who may have the opportunity to become an owner, an adviser to management, or a potential vendor, you should talk to CVC first. Contact us for a copy of our portfolio of case histories of the acquisition of companies by management. CAPITAL PARTNERS

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The hopes of Spain's conservative Popular party for an absolute majority in next March's general election have been boosted by its performance in Catalonian regional polls on Sunday.

"Now, without a doubt, José Maria Aznar [the PP leader] is the future prime minister of Spain." said Mr Aleix Vidal-Quadras, party leader in Cata-

The party, which had styled the Catalan poll as a test of opinion ahead of the general election, raised its representation in the 135-member regional legislature from seven

The surprise surge for the PP in what has traditionally been an area hostile to Madrid-based conservatives came at the expense of Mr Jordi Pujol, omous government since 1980. His moderate nationalist coalition Convergència i Unió (CiU) saw its overall majority disap-pear when it lost 10 seats to return 60 members to the Barcelona-based parliament.

Mr Pujol said he would form a minority government at least until the March general elec-

He blamed the CiU's poor results on the support which his party, until last summer. had given to the minority Socialist government in Madrid of Mr Felipe González, the prime minister. "This has been the first stage in the clarification of Spain's political landscape," the Catalan leader said, "and the second stage will come with the general elec-

The González government, which has been in power since 1982, has been increasingly discredited by judicial inquiries into charges that range from widescale embezzlement to allegations that it sanctioned a "dirty" war against members of the Basque terrorist organisation. Eta, in the 1980s.

Last month Mr González's draft budget for next year was defeated in parliament after the CiU loined the PP and other opposition groups to vote

The Socialist party itself drew some comfort from the fact that its support in Catalonia fell less than expected. The party lost six seats to return 31, consolidating its position as the main political group in the Catalan parliament after the CiU. Opinion polls indicate that support for Mr Gonzalez has waned considerably and that the PP holds a 10-point

lead nationwide. A non-binding parliamentary motion today will call on Mr González to call an immediate general election, but Mr Puiol said yesterday that the CiU would vote with the Socialists to defeat the motion becaus he had already been assured that Mr González would dissolve parliament when Spain's presidency of the European

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The Financial Times Limited, Number
te Sombwark Bridge, London SE1 9HL Extremist landslide feared in December 17 poll

### Russian judges give election go-ahead

Russia's constitutional court yesterday cleared the way for parliamentary elections to take place as scheduled on December 17. It refused requests to tackle alleged flaws in the country's electoral law, a decision some moderate politicians fear may open the door for an extremist landslide in the polls for the 450-seat parliament. The run-up to Russia's par-

liamentary elections has already been marked by a series of scandals. These prompted a Supreme Court request for the Constitutional Court to review the validity of the country's elec-toral laws. But after a closed session of the 19 judges yester-

ality. It gave no explanation The elections - only the third freely contested parlia-mentary poll in Russia this

day, the court said it would not

consider the law's constitution-

But some moderate politicians and business leaders fear the electoral system will help communists and hardline nationalists, who are doing well in the polls and are expected to form the majority in the

That could lead to a renewed clash between the executive and legislative branches of power, as occurred in 1998 when Mr Boris Yeltsin sent in armed forces to disband the Summerne Soviet.

next parliament.

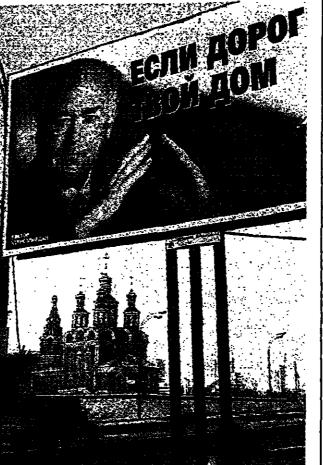
Half the seats in the Russian parliament are allocated by proportional representation, and a party must gain 5 per cent of the votes before it can win any seats. Mr Ivan Rybkin, speaker of the lower house of parliament, and leaders of several of the smaller electoral blocs had asked the Constitutional Court to remove this

removal would allow wider representation of parties in parliament and thus dilute the extremists' influence. Some politicians argued that

uncertainty over the constitu-tionality of Russia's electoral law might undermine the incoming parliament's credibil-ity. They fear that legal ambiguity could allow the president to dissolve parliament for technical reasons after elections. Mr Nursultan Nazarbayev, president of neighbouring Kaz-akhstan, disbanded the local

parliament earlier this year after the validity of the electoral law was questioned.

In the Chechen republic, elections for a new head of state, also scheduled for December 17, have been called into question as violence escalates. Chechen resistance fighters yesterday tried unsucce fully to assassinate Mr Doku the Moscow-



Mr Victor Chernomyrdin's "Our Home is Russia" electoral bloc

### Ministry sees Nato threat to security pact

By John Thornhill

Russia's foreign ministry warned yesterday that Nato's plans to expand into eastern Europe could "blow up" the Conventional Forces in Europe (CFE) treaty, which forms the central plank of disarmament plans across the continent.

In the most direct linkage of the two security issues so far, official told the Interfax news agency the CFE treaty would be rendered obsolete if Nato expanded eastwards.

"In case of, say, former War-saw Pact members Poland, of the Chechen conflict.

French students will demonstrate in cities

across the country today in the first of a

series of protests over the coming week

against government policy and plans for

important changes in the national welfare

The strikes and protests, spearheaded by

public sector and transport unions, will

show the strength of opposition to plans

by Mr Alain Juppé, the prime minister, to

cut the public sector deficit and reform the

social security system.

Heralding a "black week" for the centre-right Gaullist government, French news-

papers yesterday described the protests as

a test of the Juppe administration's

resolve following its announcement last

week of plans to eliminate the FFr60bn

In the first protest today, students plan

to take to the streets in a sign of frustra-

(\$12bn) welfare deficit by 1997.

By John Ridding and

Andrew Jack in Paris

Hungary or the Czech Republic entering the alliance, the arms balance would change in Nato's favour," the official

In such an eventuality, Russia would consider that further compliance with the CFE treaty endangered its national interests and would exercise its right to withdraw from the agreement, the official said. The foreign ministry's state-

ment came three days after Russia technically breached the terms of the CFE treaty by maintaining too many armed forces in the Caucasus because

Strikes and marches will test Juppé administration's reform resolve

Week of protests in France

resources of reforms promised by Mr Fran-

More serious protests are expected on

Friday when unions representing the

country's 5m public sector workers strike

against planned welfare changes, includ-

ing proposals to raise the period of their

pensions contributions from 37.5 years to

rail and metro transport and to affect

state-owned companies such as Electricité

de France. The Communist-led CGT union

has called for a general strike on the same

day, while Force Ouvrière, another of

France's main unions, has called for a

Unions representing SNCF railway

workers yesterday called for "a massive

strike" on Friday and possibly beyond to

demonstrate opposition to productivity

and cost-cutting proposals presently under

But France's unions have been divided

further stoppage on November 28.

ears. The strike is expected to disrup

cois Bayron, education minister.

The CFE treaty, signed in 1990, envisaged the destruction of 50,000 pieces of military hardware, including tanks, artillery, and aircraft, and set various deadlines for its implementation. But the foreign ministry

official said the CFE treaty could be saved if it was amended to reflect national forces, rather than those of military blocs. He suggested that it should be expanded from 30 to 53 sig-

natories to include neutral states and former Soviet states

tion over the slow pace and inadequate by the government's reforms. The CGT

The escalation of anti-Nato rbetoric from Moscow was also reflected in a statement sent by the upper house of the Russian parliament to the Latvian legislature urging it not to "pander to the ambitions of

the Nato leadership". The three Baltic states of Estonia, Latvia, and Lithuania have all expressed a desire to disentangle themselves from their Soviet pasts and reorient themselves to the west by seeking membership of the European Union and Nato.

But, in what appeared to be a veiled threat, the Russian statement said: "The approach

and Force Ouvrière were unable to agree a

joint day of action. More significantly, the

moderate CFDT, one of the biggest unions,

has stopped short of calling for a strike.
"The CFDT is united behind the need to

counter the populism and demagoguery of FO and the CGT," said Ms Nicole Notat,

Mr Juppé claims the proposed welfare changes are "fair and necessary", arguing

that the disadvantaged will not be affected

by his deficit reduction measures and that

5m people will be exempted from a

Separately yesterday, in a further ele-

reform pledges, Mr Jean Arthuis, econom-

ics and finance minister, said he was con-

the union's leader.

of the Nato military machine towards Russia's borders poses economic, and military secu-

The statement from Moscow coincided with a visit to the Baltic region by Mr William Perry, the US defence secretary. Mr Perry discussed Estonia's application to join Nato with local officials yesterday.

designed to placate Moscow's worries, he said a security structure for Europe could not be created by separating or isolating Russia.

**Poland** draws up

### new lines of battle

By Christopher Bobinski

Mass privatisation and the country's constitution promise to become political battle-grounds in Poland as opponents of the former Communists seek to claw back territory lost in Sunday's presidential election.

planned 0.5 per cent income tax to repay accumulated social security debts of Privatisation moved to the centre stage last Friday when the Senate, parliament's second chamber, approved a pro-posal by the fiercely anti-Comment of the government's wide-ranging munist Solidarity trade union sidering removal of the 20 per cent exemp-tion from income tax which applies to for a national referendum on "enfranchisement" which aims at a national distribution of Czech-style coupons which can be used to purchase state

Solidarity is arguing that present privatisation policies serve the interests of the former Communists, who now control the government together with their Polish Peasant party coalition partners, and that a fairer distribution of wealth can only come through a coupon system.

The referendum, scheduled for February, was opposed by Mr Wieslaw Kaczmarek, the privatisation minister, who told the Senate that disbursement schemes planned by the government would leave few assets for a coupon privatisa-

He said the government was planning to use remaining assets to capitalise pension funds, return property to former owners and pay compensa-tion to pensioners and state employees who had suffered income cuts in 1991 and 1992 which were later declared illegal by the courts.

Tomorrow will see the start of the sale, for a nominal fee of 20 zlotys, of shares in 15 invest-ment funds which have been given 414 state sector compa nies to manage under a long delayed mass privatisation scheme which is Poland's version of coupon privatisation.

The referendum on privatisa

tion will be followed by another to approve a new constitution currently being worked out in parliament. The Catholic church has said it is unhappy with provisions in the draft which open the way to liberalising Poland's strict antiabortion laws. Solidarity insists that clauses safeguarding "Christian values" should be included.

The referendums give the hitherto divided opposition a chance to regain the political initiative and build an organisation capable of winning parliamentary elections scheduled for 1997.

# Bonn plans cash papandr laundering curbs | Settles

Mr Manfred Kanther. German minister for home affairs, yesterday submitted detailed proposals to strengthen the law against money laundering and organised crime. New legislation is planned for early next year, after discussion by parties in Bonn's centre-right coalition government. The proposals include stronger co-operation between banks

and public prosecutors in cases of suspected money aundering; action to prevent insurance policies being used as vehicles for money laundering; and supervision of increase de changes by Germany's banking regulators. The ministry wants greater powers to tap the telephones of suspected money launderers and to provide immunity for banks and individuals involved in "sting" operations.

The ministry has also proposed expanding the catalogue of offences recognised as leading to money laundering. These would include credit fraud, blackmail, illegal gambling. dealing in stolen goods, illegal trade in radioactive products and trafficking in human beings. The offences were typically linked to organised crime.

### Nato arms 'used in abuses'

Human Rights Watch (HRW), the US-based pressure group, says that Turkey's security forces are using arms and equipment supplied by its Nato allies to commit serious and widespread human rights violations in their 11-year war against guerrillas of the Kurdistan Workers' party (PKK) in the mainly Kurdish south-east

In a report published today, HRW details 29 cases in which Turkish troops used equipment ranging from US F-16 fighter bombers to British-made Shorland armoured cars to attack civilian targets. In one attack, it says, Turkish air force F-16s killed 28 civilians when it bombed a village.

The HRW demands that Turkey's Nato arms suppliers increase pressure on the security forces to respect human rights. It says the US alone supplies about 30 per cent of Turkey's weapons imports and that Turkey is the third largest recipient of US foreign assistance. Washington should halt all military supplies to Turkey "until it no longer engages in. . gross human rights violations". John Barham, Ankara

#### Loan for Bulgarian railway

Bulgaria's run-down state-owned railway system has received a Ecu32.5m (\$42m) rehabilitation loan from the European Bank for Reconstruction and Development (EBRD). It is part of an overall Ecu231m project co-financed by the World Bank, various export credit agencies and the European Union's Phare aid programme. The loan will finance high-priority track repairs and new rolling stock, signalling and nanagement information systems.

It is the first loan under the EBRD export credit loan arrangement programme (Eclat), under which part of the credit will be used to co-finance some of the railway investment programme with export credit agencies. Eclat aims to mobilise additional funding from the agencies and facilitate future export-related financing. Anthony Robinson, London

#### Belgians jail GLA suspect

Mr Ahmed Zaoui, who Belgian authorities believe is second in command in the fundamentalist Algerian Armed Islamic Group (GIA), was yesterday jailed for four years by a Brussels

But the court said he had served enough time, clearing the way for his extradition. The court, overturning the Algerian's acquittal in a trial in

September, jailed the 34-year-old former professor, already condemned to death in his own country, for his role in a criminal network set up in Belgium. Mr Zaoui and seven other North Africans stood trial on charges which included illegal possession and transport of arms and explosives. They all denied belonging to GIA. The group wants France to end support for the Algerian authorities, who cancelled a 1992 election which Moslem fundamentalists were poised to win. killed seven people.

### EU foreign policy reform call

European Union foreign policy actions should be decided under normal Community procedures, with the Commission having sole right of initiative and with majority voting in the Council of Ministers where appropriate, according to a paper published yesterday by the Federal Trust, a pro-European British pressure group. The paper is one of a series produced by a panel chaired by

Lord Jenkins of Hillhead, a former president of the European Commission, in advance of next year's intergovernmental conference to revise the Maastricht treaty. It was drafted by Mr Simon Nuttall, a former director in "DG 1", the department of the Commission dealing with external policy. The Maastricht treaty set up a special procedure for

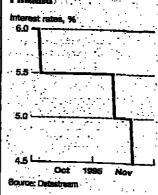
deciding the EU's "common foreign and security policy" (CFSP), which kept the initiative mainly in the hands of national governments and allowed joint actions to be decided by qualified majority only after a "common position" had been decided unanimously. In fact there have been few common actions so far. The paper attributes this to a "Gresham's law of CFSP, in

which the worse (or less binding) procedure drove out the

It therefore proposes that the "common positions" category should be abolished. Instead, the Council would decide "orientations" by consensus under the CFSP procedure, but joint actions - such as recognition of a foreign state, election monitoring or civilian peacekeeping - would be subject to the rules and practices of the Community. The European Court of Justice, which at present has no jurisdiction in foreign policy. would be allowed to rule on procedural matters, though not on Edward Mortimer, London Security of the Union (Federal Trust Paper 4), available from

BEBC (tel +44 1202-715555, fax 715556), price £7.95. ECONOMIC WATCH

### Third cut in Finnish rates



yesterday cut its main short-term interest rate for the third time in two months. in a further sign of its confidence that strong economic growth is not endangering low inflation The cut reduces the bank's tender rate from 5.0 per cent to 4.75 per cent, for a fall of 1.25 percentage points since September. Finland enjoys an inflation rate of less than 1 per cent, even though the economy will grow by about 5

per cent in 1995. Lower food

The Bank of Finland

prices after the country's strong markka have kept inflation in check; the outlook for entry into the EU and the next year has been helped by a two-year national wage accord and a promised cut in employers' unemployment insurance contributions. The central bank expects underlying inflation

to peak at about 2 per cent in the second half of 1996, before easing in 1997. Christopher Brown-Humes, Stockholm

Blanish consumer prices rose 0.1 per cent in October from
September. Year-on-year inflation slowed to 1.9 per cent from
2.1 per cent lost month. 2.1 per cent last month.

■ Italy's industrial producer price index rose 0.1 per cent in September from August, and 8.7 per cent over the same month

### Emu timetable worries banks

By Andrew Jack in Paris

France's leading banks fear the proposed timetable for European monetary union will be too short unless the deadline for deciding which countries will be eligible to join the single currency is advanced. The French association of

credit establishments, which includes all the country's commercial banks, is lobbying the European Commission to ensure that there is a clear indication by 1997 of which countries will be able to join. They say they need at least two years' notice to make the necessary changes ahead of

currently planned. Their fears have been intensified by last week's draft proposals from the Frankfurtbased European Monetary Institute (forerunner of the

German companies are more hesitant and sceptical about Emu than previously supposed, according to the Chambers of Industry and Trade, writes Peter Norman in Bonn. A poll of 25,000 companies found only 9 per cent thought the start of the third and final phase of Emu on January 1, 1999, was both "probable and desirable"; 36 per cent thought it desirable; 45 per cent were against. Only 24 per cent thought it probable the final stage would begin on time; 57 per cent thought it improbable. planned European central

bank) which say that the eligibility of countries will not be notified until 1998. Mr Pierre Simon, a director of Paribas and chairman of the

EU Banking Federation representing European banks, said the EMI report left open several important questions which needed to be resolved swiftly.

The larger European banks would need to spend at least FFr1bn (\$205m) each in new computer systems, staff training and other changes, he said.
"It's not right if we take the

risk in our accounts for nothing."
The European banking asso-

ciation has written to Brussels arguing that members need two or three years to adapt their systems for monetary union. Its counterpart in France argues that it needs a serious commitment before 1998 on which countries will be in the system.

The French banks are pressing for governments within the system to do their utmost to ensure that all currency exchange transactions are

plex transition period. They also want all government bond issues quoted solely in the new single currency unit from the beginning of the period. They stress further that the

quoted in the single currency

from 1999, without any com-

legal status of the single currency needs to be more clearly established over the coming months. • The EMI will tomorrow present its report on the extent

to which countries are meeting the convergence criteria for Emu. writes Andrew Fisher in Frankfurt. Under the Maastricht treaty, the institute is charged with monitoring countries' progress under the debt. budget deficit, inflation and other criteria. It is expected to conclude that Germany is continuing to meet these, but that others have difficulties on the

### E Europe 'hesitant on liquidation' the US Agency for Interna-

By Kavin Done, East Europe Correspondent

Countries in eastern and central Europe are failing to use existing bankruptcy legis-lation to reform loss-making state-owned enterprises, according to a study by Deloitte Touche Tohmatsu International, the accountancy

Special programmes devised to restructure large, ailing state-owned companies in the region have met only "limited success", its report says.

Few state-owned enterprises deemed to be unviable have undergone liquidation," said and more than 100 each in Bul-Mr Richard Coates, DTTI garla and Romania.

regional director for corporate recovery. "There is still much to do

and many costs to be borne, both financial and social, in the transformation of the state

Some 70 to 80 per cent of state-owned enterprises in the region were insolvent according to western standards of insolvency, he said. The most advanced use of

bankruptcy proceedings had been in Hungary, where 10,000 cases had been finalised by last year, Mr Coates said. By contrast, only 30 proceedings had been completed in Slovakia

In the Czech Republic only 282 proceedings had been finalised in the period, despite the fact that 2,274 petitions had been filed. Insolvency legislation and

proceedings were least developed in Albania, he said. From the former Soviet Union, only the Baltic states were included in the study. Central and eastern Euro-

pean nations were seeking a balance between imposing financial discipline on lossmaking enterprises and the immediate need to keep bankruptcy proceedings within reasonable limits, Mr Coates added. The report, commissioned by

tional Development (Usaid), says that "tough decisions must be made". Reasonably efficient bankruptcy laws have been passed in most countries, and legal reform is not the priority.

Substantial investment has to be made in the system of courts, judges and trustees, or "even the best laws will not be applied successfully in prac-

Restructuring and Bankruptcy in Central and Eastern Europe. Available from Deloitte Touche Tohmatsu International (tel 44-171-936-3000. fax 44-171-

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Greek premier in hospital with pneumonia

### Papandreou illness unsettles markets

By Kerin Hope in Athens

Mr Andreas Papandreou. Greece's prime minister, was yesterday rushed to hospital with breathing problems after suffering a bout of influenza. News of his illness triggered a wave of selling on the Athens stock exchange and put the drachma under pressure against the D-Mark.

Several hours after he was admitted to the Onassis Car-diac Hospital and put in intensive care, the hospital said Mr Papandreou had pneumonia, his condition was "satisfactory" and that "some improve-ment could be expected". The statement's delay prompted speculation that his condition

Mr Papandreou, 76, made a strong recovery after undergoing open-heart surgery in 1988, but has grown increasingly frail since leading the Panhellenic Socialist Movement back to power at a general election two years ago.

Yesterday he was due to chair a meeting of Pasok depu-ties, at which party rebels were

demand that he start procedures for choosing a successor. Prices on the Athens stock

exchange fell almost 8 per cent as Greek and foreign institutional investors unloaded shares on the news of the premier's illness, but finished the session only 2 per cent lower. Brokers said political uncertainty was driving the market

The central bank spent an estimated DM400m (£183m) to support the drachma against the D-Mark. The intervention proved successful - with the Greek currency closing at Dr165.51 compared with Dr165.67 on Friday - but dealers said pressure would resume unless Pasok quickly resolved the leadership issue.

Despite his fragile health, Mr Papandreou has resisted pressure to appoint a deputy premier, governing with the assistance of an informal "kitchen" cabinet that includes his wife Dimitra, who runs his private

Earlier this year the prime chair a meeting of Pasok depu-ties, at which party rebels were decree appointing Mr Antonis expected to repeat their Livanis, minister without port-

were unable to govern. But analysts say that Mr Livanis, an elderly Socialist who started his political career as a legal adviser to Mr Papandreou, would be unable to keep the unruly cabinet under con-

There are pressing economic policy problems to be settled, with the 1996 budget due to be finalised over the next two weeks, Without Mr Papan-dreou's support, Mr Yannos Papantoniou, the economy minister, will find it harder to face down populists in the cabinet who are calling for wage restraints to be lifted.

The succession procedure is clouded by controversy. Populist contenders to succeed Mr Papandreou, who are backed by grassroots party organisa-tions, argue that the central committee should elect a new party leader who would take over as prime minister. The pro-European faction

wants Pasok's 170-member parhamentary group to vote for a new prime minister, who would then be confirmed at a special party congress.

### No-nonsense diplomacy in Dayton

War lords at Bosnia talks have a reminder of US might, writes Bruce Clark

ayton, Ohio, the no-nonsense smoke stack city of 500,000 which has played host to the Bosnian peace talks, is an eloquent symbol of the two things which have helped the US reestablish itself as the dominant power in the Balkans; air power and cash.

As the Balkan war lords made their way through the dull, misty landscape to the Hope Hotel conference centre whose name honours the come dian Bob rather than any spirit of optimism - they never had to look far to spot the rows of F-16s, Starfighters and other fighting machines of the US air

The hotel and other buildings at the Wright-Patterson Air Force Base have provided, to quote the local newspaper, a "masonry-walled, plain-va-nilla meeting place" which lacks the "warm lobby character" which the city's finer hotels could have offered. But the sheer size of the base

known as Wright-Pat, which sprawls over three counties, must surely have been a sober-ing reminder of the US mili-tary power which lay behind September's bombing campaign in Bosnia and helped bring the parties to heel. Daytonians pride themselves that almost every innovation



Croatian President Franjo Tudjman (left) with Warren Christopher, US secretary of state, after Mr Tudiman's return to the Bosnian peace talks at Wright-Patterson Air Force Base

in aviation history, particularly military flying, has been produced or refined in their city - from parachutes to wind tunnels to the supersonic of which a couple of prototypes can be spotted at Wright-Pat.

fined to aviation; the cash register, invented by a small tradesman who thought his employees were cheating is Dayton's other contribution to humankind.

The seclusion and homespun atmosphere have helped pre-vent the parties from indulging during previous rounds of

The spectacular weekend resignation of Mr Muhamed Sacirbey, Bosnia's foreign minister - who fumed to the cam-eras that "I am not happy with

how little dramatic news footage there has been in the first

19 days of talks. Mr Sacirbey, who grew up in the US and plays a mean game of American football, is one of the few delegates for whom the steakhouses and neon lights of Dayton are a familiar

To make the others feel at taurateurs have put out notices reading: "Bosnians

served free". But however remote Dayton feels from Bosnia, the end of the cold war - a decisive factor in Yugoslavia's bloody dismemberment - can also be felt

in the city.
Thousands of Daytonians, particularly in the field of defence electronics, are facing lay-offs as the US defence establishment is cut; locals say this could create a new class of "poor whites" whose already tense relations with the black community are likely to

For the moment, all that is just a small cloud on the horizon. If the blandness and apparent contentment of Dayton could be transported in small measure to the Balkans. the region would become a quieter but infinitely less interest-

### **EU's ministers** finally in tune

By Emma Tucker in Brussels

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Months of bitter argument over whether to impose EUwide quotas for locally made television programming ended yesterday when ministers agreed to prolong the life of existing European Union broadcasting rules.

A decision to revert to the status quo terminated French ambitions to tighten quotas dictating the content of European broadcasts, but also frustrated German and British plans to scrap quotas alto-

Channels broadcasting in the EU will continue to have to sgreen at least 51 per cent European made programmes, but only "where practicable" a loophole that allows many broadcasters to ignore the

"All delegations made considerable efforts in order to overcome different positions and points of view," said Ms Carmen Alborch, the Spanish culture minister, who led yesterday's discussions in Brus-

The decision is a blow to France's desire to limit USmade programmes on European screens. A majority of other member states felt oblig-atory quotas to be unworkable, particularly as new technology favours the development of "theme" channels.

Lord inglewood, the junior British culture minister, said: "At the outset the proponents of quotas were riding high, but as the process has gone along the tide has ebbed."

The scrapping of quotas will be an option when the EU's broadcasting regime designed to allow broadcasters to transmit material wherever they like in the single market - is reviewed again, five years after the implementation of the

Aside from the issue of quotas, the only significant hanges agreed yesterday

of their alliance, an EU official said yesterday, AP reports from Brussels. The chairmen of both companies and Mr Van Miert agreed on most of their problems during a meeting on

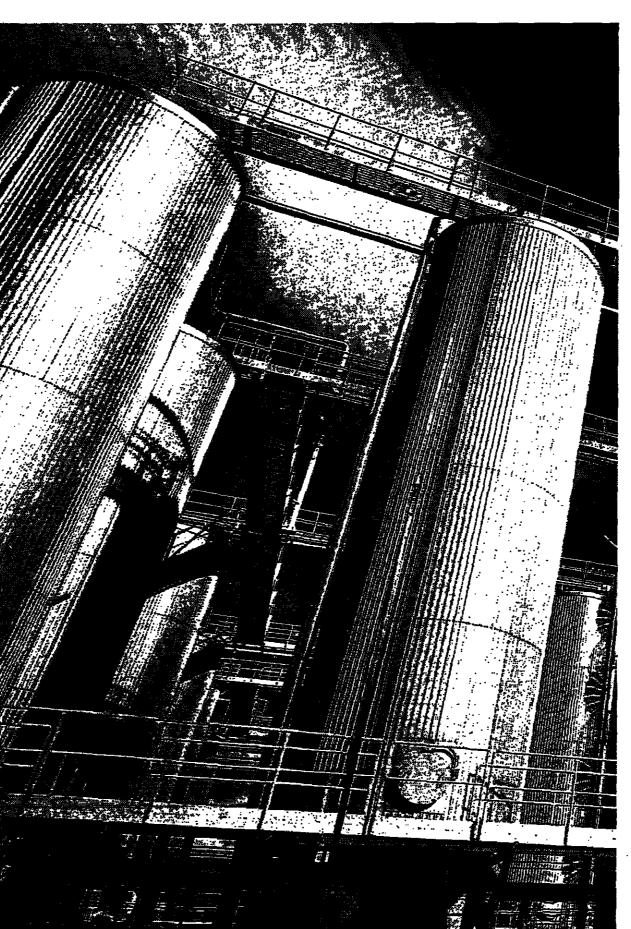
official said RU experts would meet company officials to work out a formal proposal

channels devoted entirely to tele-sales, but on other

tion over the content of broad-casts. Ambiguities had led to

has authority over a channel's content where the company's headquarters are located; where the main managerial decisions on programming are taken; and where the bulk of

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### on broadcasting Mr Karel Van Miert, EU competition commissioner, bas agreed "in principle" with Lufthansa and Scandinavian Airline Systems on the terms

airline slot allocation

November 10, but some key issues remained, officials said. These included the choice of competing airlines to be given slots in Frankfurt, Dusseldorf, Stockbolm, Oslo and .. Copenhagen during the hours. The EU Commission

which should be voted on by the Commission in late December. include an extension of broad casting rules to tele-shopping A liberal regime will apply to

channels it will be restricted to three hours a The revisions also clarify which countries have jurisdic-

clashes between member states. Under the new rules a threefold test will be applied to establish which member state

the workforce is located. Ministers said they hoped these revisions could be

adopted before the end of the However, the European parliament has yet to give its opinion. It is due to do so next

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### EU ministers set to endorse closer US links

By Caroline Southey in Brussels

European Union foreign ministers were last night set to endorse an ambitious co-operation pact with the US aimed at forging closer political and economic links, including the creation of a barrier-free transatian-

tic trade regime.
Yesterday's debate followed intense lobbying by the EU Commission and the Spanish presidency to see the accord approved before next month's EU-US summit in Madrid, where it is due to

WORLD TRADE NEWS DIGEST

be initialled by US president Bill trade barriers to goods, services and Clinton.

Some member states, notably France, previously blocked the pact because of its strong commitments to trade liberalisation.

However, the accord was expected to win approval after adjustments had been made to soften the language on commitments to a free

The central plank of the blueprint is a commitment from both sides to create a "transatlantic marketplace" by steadily reducing or eliminating

But the draft text shows that there were still some concerns about the phrase "transatlantic marketplace," indicating that member states had not been able to agree an umbrella title for future trade rela-

The draft contained no reference to a free trade area, but committed both sides to a joint study on ways to facilitate trade in goods and services and further reducing or eliminating tariff and non-tariff barriers.

The pact makes clear that both sides remain committed to their multilateral obligations under the World Trade Organisation. The joint EU-US plan commits

both sides to a wide-ranging set of practical measures. "We will co-operate both jointly and multilaterally to resolve tensions, support civil societies

pact says.
On the economic front, the plan includes co-operating on the accession of new members to the WTO,

and promote market reforms," the

notably China and Russia, and completing multilateral accords on goods and services, telecommunications, maritime services and financial ser-

It identifies a number of other "priority" areas, such as trade and the environment, investment and On labour standards the accord

says the two sides will join efforts to 'dissipate various misunderstandings" about the issue.

There is also a commitment to agreeing a customs agreement by jects.

the end of 1996 aimed at simplifying procedures and increasing investigative co-operation and a pledge to agree mutual recognition of certification and testing procedures as soon as possible.

The political aspects of the pact include co-operating in the reconstruction of former Yugo slavia, supporting democracy and market economies in the former communist bloc, strengthening joint efforts in preventive diplomacy and acting jointly in humanitarian pro-

Britain's Export Credit

Guarantee Department (ECGD) yesterday said it had issued its

first guarantee in support of British business in Vietnam by

backing a DM225.7m (\$162.3m)

loan from Deutsche Morgan

Grenfell for construction of a cement plant south of Hanoi,

The loan is to finance the

writes Jeremy Grant.

British content of a deal

Wedag, a subsidiary of

of the plant is DM490m.

signed by KHD Humboldt

Germany's Kloeckner Humboldi Deuiz, for a 4,000

tonne per day clinker cement

plant at Tam Diep, in Ninh Binh province. The total cost

ECGD would back 46 per

cent of the project cost, said

Mr James Neal, a director at

Deutsche Morgan Grenfell. A

parate loan worth ¥11.8bu

(£74m) for a Japanese component of the project to be

undertaken by Nichimen Corp

has been guaranteed by the Export-Import Bank of Japan,

the Japanese Ministry of Trade and Industry and financing

with East German integration,

the onus still lies with Hanoi

to ensure it attracts significant

legal structure," said the

They have to improve the

from Sanwa Bank and other

Japanese institutions.

German interest.

business here."

### Peugeot to launch 309 model in India

By Shiraz Sidhva in New Deihi

Peugeot of France launches its 309 model in India next month in the hope of securing a slice of the country's large and growing car market.

Peugeot, which is in collaboration with India's Premier Automobiles, has invested \$24m in the \$177.7m project to make the passenger car in

Premier has invested an equal amount in the project, with the remainder reserved for financial institutions and the public.

"PAL-Pengeot hopes to produce 60,000 cars each year by 1997 and capture 15 per cent of the market share," according to Mr Maitreya Doshi, PAL

managing director "We expect PAL-Peugeot profits to grow to \$28m in five years, half of which will come from Peugeot 309 sales," he

Premier has existing, separate deals to produce the Fiat Uno in agreement with Fiat and possibly also the Italian company's proposed new "world car" model.

Pengeot, part of the PSA Pengeot Citroen group, the world's seventh-largest car manufacturer, forecast the Indian market for mediumsized cars to grow to 500,000 by the turn of the century and said that pre-launch orders for the 309 had already reached

106.000. Foreign manufacturers have been jostling for a share of the Indian vehicle market where demand by 2000 is predicted to reach 700,000-800,000 passen-

Earlier this month, South Korea's Hyundai said it was finalising plans to make a medium-sized car of between 1000cc and 1800cc in India. Volkswagen and Eicher, the Indian commercial and farm vehicle group, are also looking to introduce the Golf to India. Peugeot loan, see ICN

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### Germans defer interest in Vietnam

Germany: trade with Vietnam

**EU and Israel** sign trade deal

The European Union and Israel yesterday signed a trade and co-operation accord within the EU programme to stabilise and bolster stability and trade in the Euro-Mediterranean region. Mr Shimon Peres, the acting Israeli prime minister, signed the deal which replaces a pact dating from 1975. The accord was negotiated in July after EU foreign ministers negotiated their way around Spanish worries over imports of oranges, Austrian fears about apple juice imports, French difficulties with foie gras and maize and an agreement allowing Israel to sit on EU research and development committees.

Israel, which will be contributing to the EU research and development fund, has won a seat on the various committees but will not be allowed to vote. Israel will be among 12 non-EU Mediterranean countries taking part in a meeting with the EU's 15 nations in Barcelona on November 27 and 28 to set out a strategy for a zone of stability in the region and eventually a Euro-Mediterranean tree trade area. Foreign Staff Foreign Staff

#### WTO eyes competition policy

Mr Renato Ruggiero, director general of the World Trade Organisation, said yesterday there was an urgent need to examine the links between trade and competition policy with a view to setting multilateral competition rules within the WTO. In a speech in Rome, he said the globalisation of the world economy had increased the international impact of differences in competition policy norms and enforcement. Successive trade rounds had curtailed governments' ability to restrict or distort international competition, directing attention to private sector measures which had a similar effect but were not subject to global rules.

"If the international community seeks to negotiate rules that require countries to give rights to foreign companies, it is almost inevitable that the issue of international co-operation to deal with possible abuses of those rights will also arise," he said. Examples included export cartels and the use of competition policies to favour domestic firms. The WTO is already discussing competition rules in telecommunications services. However, Mr Ruggiero said there was a need for a more general look at how trade policy and competition policy could be made mutually supportive. Frances Williams, Geneva

#### Vietnam bans used imports

Vietnam has banned a wide range of second hand imports including equipment for the oil and gas, power, cement and food processing industries, the official daily Vietnam News reported yesterday. No reason was given for the decision, which took effect on November 1, but industry experts said the measure had been expected and was aimed at stopping foreign investors from using Vietnam as a dumping ground for second-hand technology. The Vietnamese media frequently criticises investors from Hong Kong, Taiwan, Japan and South Korea for using second-hand equipment in joint ventures as a way of reducing their capital contribution.

The report said equipment other than that listed in a decree issued by the Ministry for Science, Education and the Environment could be imported if the time lapse from the date of production to that of import did not exceed 10 years for equipment made in G7 countries and eight years for non-G7 countries. However some industry experts said the move was too far-reaching and did not take account of equipment that, although second-hand, might still contain some modern Jeremy Grant, Hanoi

#### Contracts and ventures ■ Electrical engineering group Asea Brown Boveri has

formed a joint venture to manufacture control and monitoring systems for Ukrainian power and industrial utilities. The company, ABB Monolit, is 51 per cent owned by ABB through its subsidiary Combustion Engineering Inc. of the US and 49 per cent by Monolit, the leading manufacturer of missile control systems in the former Soviet Union. ABB Monolit will receive a grant from the US government under the Nunn-Lugar programme for the conversion of defence industries to civilian use. ABB now has four companies in the Ukraine employing 1,500 people. Foreign Staff, London

■ Royal Dutch/Shell, the Anglo-Dutch oil giant, has formed a joint venture with three Romanian gas and petroleum distributors under which Shell will invest \$42m in a liquefied petroleum gas project over the next three years. Shell Gas <u>Romania, a joint venture between Butagaz International, a</u> Shell subsidiary, and three regional companies, will extend the three companies' existing filling plants and improve distribution and other services. The three companies will contribute existing facilities in return for \$10m equity in the new company. Shell will contribute \$12m in cash and expects to invest a further \$30m by 1999. Virginia Marsh, Budapest

■ Two Canadian telecommunications companies, Teleglobe and SaskTel have won a \$600,000 contract from the Philippines to design an all digital national cable and microwave transmission network. They will also plan project financing and system management. The system, due to begin in 1997, will link existing regional networks. Robert Gibbens, Montreal

 Zimmer of Germany has been awarded a contract by PT Luminary Polysindo, a company of the Gadjah Tunggal Group to build a polyester plant at Karawang near Jakarta. The order amounts to about DM180m (\$128m). Zimmer will provide the process technology, engineering and equipment and be responsible for the supervision of erection and start-up. Commissioning is due in the second half of 1997. Foreign Staff

### Investors cautious despite improved relations, writes Jeremy Grant

Vietnam's prime minister, paid an unscheduled visit to the Hanol hotel where Germany's Chancellor Helmut Kohl was stay-ing to bid him farewell last Friday, diplomats read this as a sign that Vietnam was taking Germany's political overtures

However, Bonn's political initiatives were not matched on the business front. In spite of being accompanied on his four-day visit by the largest ever foreign business delega-tion to Vietnam - including top executives from Thyssen, Germany's biggest steelmaker, Hoechst, the world's largest chemical group, the engineer-ing group Mannesmann and publisher Bertelsmann - Mr Kohl presided over little more of substance than a groundbreaking ceremony for a Mer-cedes-Benz vehicle plant. Indeed, the closest German

orandum of understanding initialled by the engineering group Krupp for a feasibility study for a \$1bn iron ore project involving Lonrho, the UKbased diversified trading group, Mitsubishi of Japan and South African mining concern Gencor. Although German companies invested a record DM28bn (£18.6bm) abroad in the first six

businesses came to signing

anything concrete was a mem-

months of this year, only a tiny fraction is trickling through to Vietnam. Here, Germany ranks 28th in a list of foreign investment approvals. below the Philippines and

China and shamed by its less economically powerful Euro-Even the showcase Mercedes-Benz joint venture does not

run on money directly from Germany. The plant is funded through a Singapore subsidiary Until Mr Kohl's visit, the first by a German chancellor, the main factor dampening German investment had been political. A deal signed by the

two governments in July clear-

ing the repatriation of 40,000

Vietnamese living in Germany without residency permits took months to negotiate.

As the two sides disputed how best to settle the fate of the Vietnamese - mostly former Gastarbeiter (migrant workers) in the former East Germany and many with what

Germany says are criminal records - Bonn made clear its displeasure at German busi-nessmen developing significant ties with Vietnam, saying this should only move ahead once the political agenda was satis-

"Our ministry of the interior

made life tough at the time," said one senior official at a large German industrial group on Mr Kohl's delegation. German businesses watched as their competitors in the European Union took their investment to Vietnam. At the

same time Germany retained its position as Vietnam's fourth largest trading partner after Japan, Singapore and South Korea. Although Mr Kohl told a

circumspect Japanese away. Particularly irksome for the Germans is a Vietnamese reorirement that all decisions made at management board level in joint ventures must be

25

investment with the repatria-

tion issue - in spite of disap-

pointing progress - other more fundamental factors continue

Chief among them is anxiety

over Vietnam's murky legal

environment, one of the rea-

sons that is also keeping the

made unanimously. "This we

find difficult to accept," said

to hold the Germans back.

20

Bonn was no longer linking five years of preoccupation

Mr Heribert Wiedenhues, chairman of the executive board of Krupp Fördertechnik. Analysts say that although it is clear Germany has a firm agenda to reclaim ground lost news conference in Hanoi that in Asia as a result of the last

senior official at the German industrial group. "You need to take a lot of deep breaths to do

#### China to give full tariff cut W UNITED STATES **B** JAPAN 100.0 list next month

By Geoffrey Crothall in Beijing

China will next month finalise a list of more than 4,000 imported items which will be subjected to an overall 30 per cent reduction in tariffs, a Chinese government official in Beijing said yesterday.

The cuts, announced on Sunday by Chinese president Jiang Zemin at the Asia Pacific Economic Co-operation forum in Osaka, are expected to go into effect on January 1, 1996, the official from the State Economic and Trade Commission

Once in effect, the average tariff for goods imported into China will be cut from about 35 per cent to about 24 per cent. The final list of items remained under discussion at senior levels of the government but was expected to include products from all of China's major tariff categories, he said. China's 21 tariff categories include; plant and animal products, foodstuffs, liquor and tobacco, minerals, chemicals, plastics, leather goods, lumber and wood bi-products, textiles, shoes and apparel, bulk minerals and metals, precious and semi-precious stones, machinery and appliances, optical and medical equipment, arma-ments and fine arts.

Vehicles and vehicle parts are also listed as a major category but government officials declined to say if tariffs would be lowered for foreign made cars, currently subject to a 300 per cent import duty.

China's commitment to reduce import tariffs and to permit foreigners to form joint venture trading companies on an experimental basis was cautiously welcomed yesterday although many trade diplomats said they wanted further details. Without knowing the details of the liberalistion programme, diplomats said, it was hard to assess its effect on China's foreign trade and Beijing's application to join the World Trade Organisation.

Some officials said China's entry into the WTO was more likely after the promise of import tariff cuts and more liberal trade, but they added the caveat that Beijing needed to do more before it could join. "The measures appear to be positive. We are pleased," said a US diplomat. Washington has been spearheading the negotia-

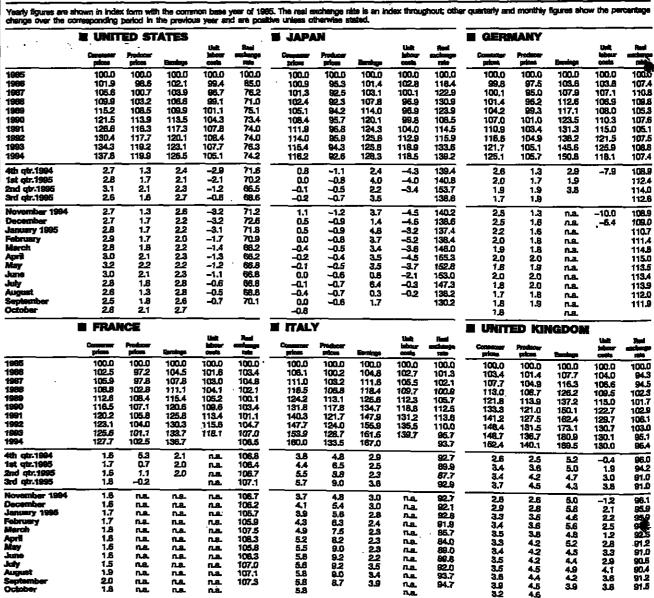
tions on China's WTO member-

ship but has also firmly

adhered to the criteria for admission and sought concrete concessions form the Chinese. Earlier this month, Ms Wu Yi, China's foreign trade minis-ter, told Ms Charlene Barshefsky, the US deputy trade representative in Belling, that the price of WTO accession demanded by Washington was

too high. Washington's Among demands are better access to Chinese markets, especially for services, improved protection of intellectual copyright and more transparency in laws and regulations governing foreign firms. "The decision on China's entry is political as well as economic," said a western econo-mist. "It will not be decided merely on economic criteria."

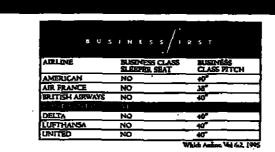
INTERNATIONAL ECONOMIC INDICATORS: PRICES AND COMPETITIVENESS



ied by Debestream and WEFA from repower adjusted, US — finished goods, Japan — manufactured adjusted, US — finished goods, Japan — manufactured . Somtiaga ledec not seasonally adjusted, measured in dom labour coasts seasonally adjusted, measured in dom am and WEFA from national government and BMF sources, and by JP Morgan, New York.Consum finished goods, Japan – manufactured goods, Germany – Industrial products, France – Intermedia or not seasonally adjusted, refers to earnings in manufacturing except France and Italy (wage rates

### IN BUSINESS THERE ARE TIMES WHEN ITS GOOD TO OUT OF TOUCH.



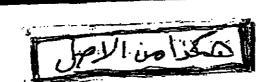


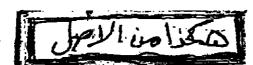
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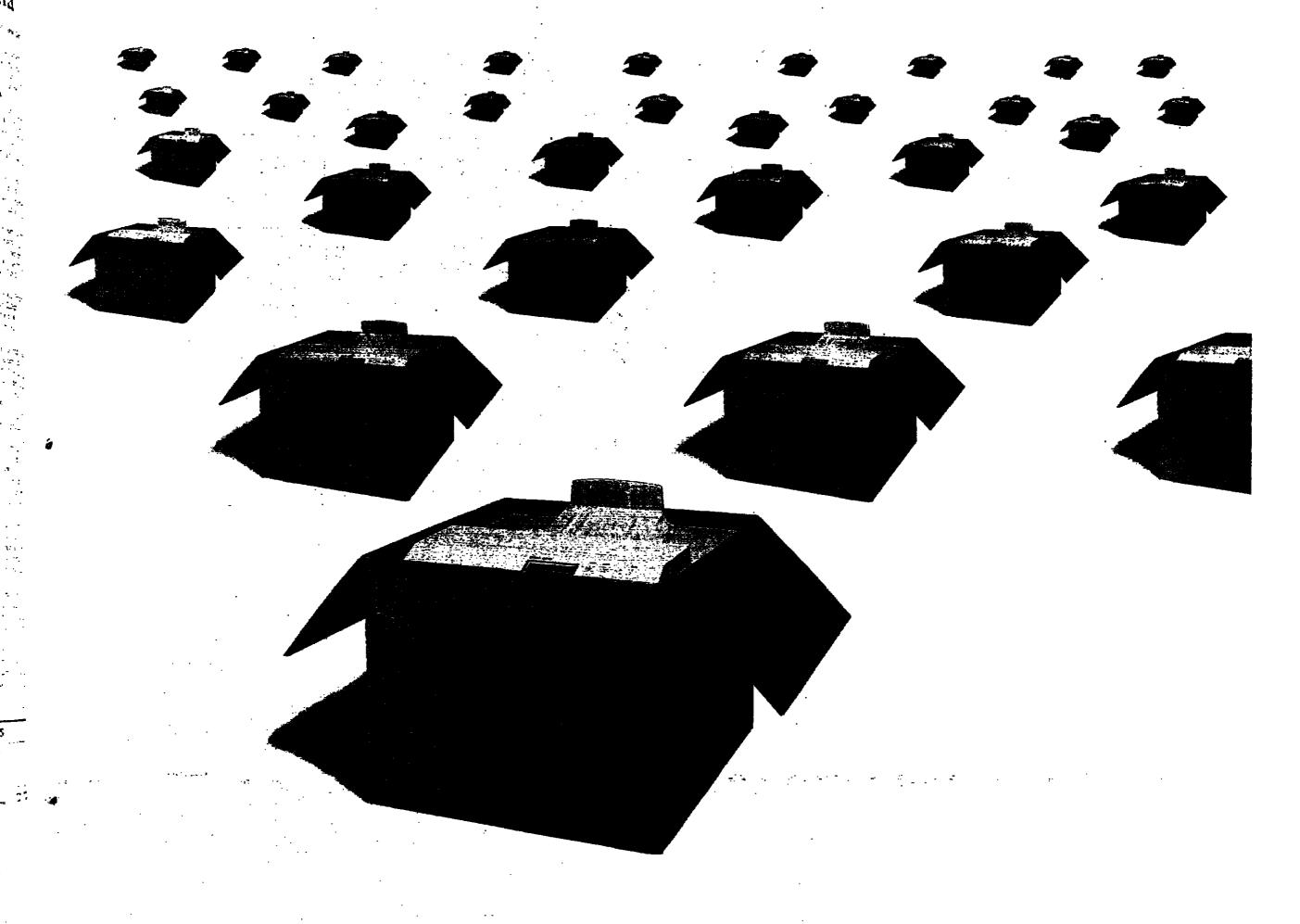
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INDV SUSPECTORS ##

M Lankan troops

so-called "new world informa-

introduce media censorship.

and the World Press Freedom

Committee, vocal in calling for

US withdrawal as a result of

the old-style policies, is now recommending that the coun-

try becomes a member again.

The problems in the past

came because the

### Unesco eyes future on a tight budget

Mr Federico Mayor, the director general of Unesco, the United Nations

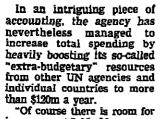
Educational, Scientific and Cultural Organisation, makes the best of the difficulties he

Under the 12-year reign of his discredited predecessor, Mr Amadou Mahtar M'Bow, the organisation turned sharply anti-American and the US retaliated in 1984 by withdrawing. The UK and Singapore followed the next year, depriving the agency of 31 per cent of its

Yet Mr Mayor, forced to engage in extensive surgery to compensate, puts a positive light on the conseque

We were obliged before other agencies to undertake a lot of reforms," he says. He plans to publish a report next spring on the management and budgetary lessons he learnt.

Since the mid-1980s, the staffing of Unesco has been cut by a third to about 2.150 and its annual "regular budget" has remained stable at about \$85m Other UN agencies are having to help with finance, writes Andrew Jack



improvement," Mr Mayor con-cedes, relaxing in his office just ahead of the organisation's 50th anniversary celebrations

However, he emphasises that Unesco's budget is no more than that of a medium-sized university.

His management efforts may ell be starting to pay off. A letter from President Bill Clinton last week suggests the US no longer has any ideological objections to rejoining the organisation, although it is prevented from so doing in the short term because of budget-

Although Unesco became an easy and partly justifiable target for criticism over profli-

almost collapsed entirely as

the electoral commission, in

spite of receiving \$20m in

donor funds, failed to get ballot

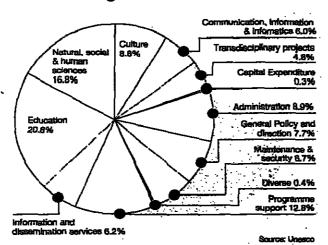
boxes, officials or voting

papers to booths on time amid

what a Commonwealth group

Mapinduzi (CCM), argued that

called "chaos and confusion". The ruling party, Chama Cha Unesco's budget for 1996-97



since the 1980s, the UK directly. After all, it was under National Audit Office and the Mr MrBow that many budget US General Accounting Office both carried out reports which failed to find any evidence of corruption.

Mr Mayor is reluctant to critgacy and mismanagement icise his predecessor too for the US withdrawal was the number some 400, and include

cuts took place. But Mr Mayor has certainly radically changed Unesco's priorities since he took over in 1987. One of the principal reasons

has probably been the protec-tion of cultural heritage sites around the world, which now

mandment."

dinating the rescue of the Abu Simbel temple in Egypt at the time of the construction of the

tion and communication Aswan dam. But Mr Mayor argues "the order", introduced under Mr M'Bow, which to many most important monument we must preserve is children", in a smacked of an attempt by the former Communist bloc and reference to his priority on education. He believes that population pressure is the bigsome Third World countries to Ironically, Unesco has placed gest challenge facing the world and that education of women is great emphasis in the last few years, instead, on stressing the the best way to cut fertility importance of media freedom. and ease the problem.

He says his campaign of persuading the world's most populous nations to agree to spend 6 per cent of gross national product on education each year by 2000 is one of his proudest achievements. "Once education improves, there will be less migration, fewer environmen tal threats, and better conditions in urban slums."

Unesco constitution was not fully respected," says Mr Mayor. "Our first article says As Unesco commemorates its that we must guarantee the free flow of information and foundation, he says the most important action is to remind its 185 member nations of the founding principle: that, in the ideas. This is our basic com-Unesco's best known work words of the poet Archibald Macleish "since wars begin in the minds of men, it is in the minds of men that the defences

INTERNATIONAL NEWS DIGEST

### SA hails rise in credit rating

South Africa yesterday welcomed the improvement in its sovereign credit rating from Standard & Poor's Rating Group, although it still has not achieved the investment grade rating awarded by two other groups. Mr Chris Liebenberg, finance minister, said the new rating "demonstrates confidence in South Africa's economic policies and political stability

following the transition to democracy".

Following a visit to South Africa in August, S & P has raised refollowing a visit to South white the Articusts its long-term foreign currency rating from BB to BB Plus. The long-term local currency rating was BBB Plus. S & P praised the government's disciplined policies but its creditworthiness was constrained "by the formidable challenges of reforming was constrained." was constrained by the time and ensuring steady reductions in the long-protected economy and ensuring steady reductions in the high budget deficit, prerequisites to the critical objective of significantly raising the sustainable level of economic Roger Matthews, Johannesburg Observer, Page 15; South Africa survey, See separate section

Israel may bar extremist Jews

Mr Ebud Barak, Israel's interior minister, said yesterday he would review police files to consider barring Jewish extremists from entering the country following Prime Minister Yitzhak Rabin's assassination.

"I may consider preventing (the entry of) these extreme elements on a case-by-case," Mr Barak said.

Under Israel's Law of Return, foreigners who can trace Jewish roots to at least one grandparent can become immigrants and claim Israeli citizenship. But the law gives the interior minister discretionary powers to keep certain elements out to preserve public order. A rightwing Jewish law student shot Mr Rabin at a Tel Aviv peace rally on November 4. At least eight other rightwing suspects were arrested for alleged ties to the murder.

Reuter, Jerusalem

#### Gadaffi castigates Arab world

Libyan leader Muammar Gadaffi, in a speech reflecting his deepening isolation within the Arab world as well as the west, says he no longer trusts any Arab ruler. "The Arab nation, from the (Atlantic) Ocean to the Gulf. is now occupied, and not independent. It needs a long fight to free the Arab nation, the land and the honour." Col Gadaffi said in a speech carried by the official Jana news agency at the weekend.

The Arab rulers have handed over the Arab countries to the enemy. Therefore, we no more trust any ruler," he said in what appeared to be an unprecedented attack on all Arab leaders. Col Gaddafi singled out Egypt, Saudi Arabia and the other Gulf countries, Syria, Morocco, Tunisia, and the

#### Boost sought for UN Iraq team

The head of a United Nations team overseeing Iraqi disarmament said yesterday he was touring Gulf Arab states to shore up political and financial support for his mission and end a persistent "headache" about funding. "If we don't get the funds we will have to close our work and that would be very disastrous for security in the region," Mr Rolf Ekeus, head of the UN Special Commission on Iraqi disarmament,

told a news conference in Kuwart. The commission, set up after the 1991 Gulf war ended a seven-month Iraqi occupation of Kuwait, is overseeing UN demands that Iraq scrap its chemical and biological weapons and ballistic missiles with a range greater than 95 miles (150

### Flawed Tanzania election tests donors' faith

ver the next few days Tanzania will install its first head of state elected under a multi-party system. But Benjamin Mkapa's triumph, a foregone conclusion since much of the opposition boycotted polls at the weekend in Dar es Salaam, is hardly an

occasion for celebration. For Tanzania's experience has shaken faith in the country's capacity to implement multi-party politics, and raised questions about the role of international observers and the dilemma faced by donor nations in danger of turning a blind eye to flawed elections in their enthusiasm for the introduction of democracy in formerly one-party states.

The exercise got off to a bad start on the island of Zanzibar, where counting was marred by statistical anomalies and evidence of tampering with return forms strong enough to warrant a boycott of the ruling party candidate's inauguration ceremony by most diplomats. On the mainland, the process

Michela Wrong on the limits and dilemmas of backing democracy

opposition demands for new mainland forced polls to be commission staff meant per-Net ODA disbursements (\$50n) sonnel had no experience of running elections. But the worst problems occurred in opposition strongholds, fuelling suspicions that the results had been rigged. "What has become very clear

is that, in a close contest the CCM will not relinquish power," said Professor Rwekaza Mukandala, political science lecturer and head of a monitoring unit. "I don't think there's anyone out there who believes these elections were free and fair." If, after 30 years at the helm.

the CCM was ready to bend the rules to cling to power, 450 observers working under the thwart it.

UN umbrella did little to They prematurely ruled the first stage of voting on Zanzibar "free and fair", and failed

And as the full extent of what many diplomats privately called a debacle emerged, the UN first kept silent and then issued a bland statement recommending the authorities "correct anomalies".

extended or repeated, most

international observers over-

ran their budgets and had to leave, work unfinished.

Some opposition supporters see the ineffectual performance of the international community during the torturous month-long process as a car-ryover of the reluctance to criticise former president Julius Nyerere displayed by many western governments during his time in office.

Having pushed the CCM to legalise party politics, the donors, say local critics, opted to accept the status quo rather than challenge the CCM's exeradequately to monitor the cise in democracy. count. As confusion on the

Whether the donors, who

provide up to 70 per cent of Tanzania's national budget, will review their position will become clear only once the dust has settled and they take stock of the extent of electoral

Last year Scandinavian countries, Tanzania's most generous donors, suspended \$35m in balance-of-payments support after revelations that donor-funded foreign exchange schemes were being abused and huge amounts of import duty not collected. They demanded the prosecution of corrupt government officials and their businessman friends.

Opposition leaders such as Augustine Mrema of the NCCR Mageuzi (National Convention for Construction and Reform) party, who won enormous support for his anti-corruption campaign, now want donors to slash aid further, arguing that a party retaining power with such suspect methods is in no

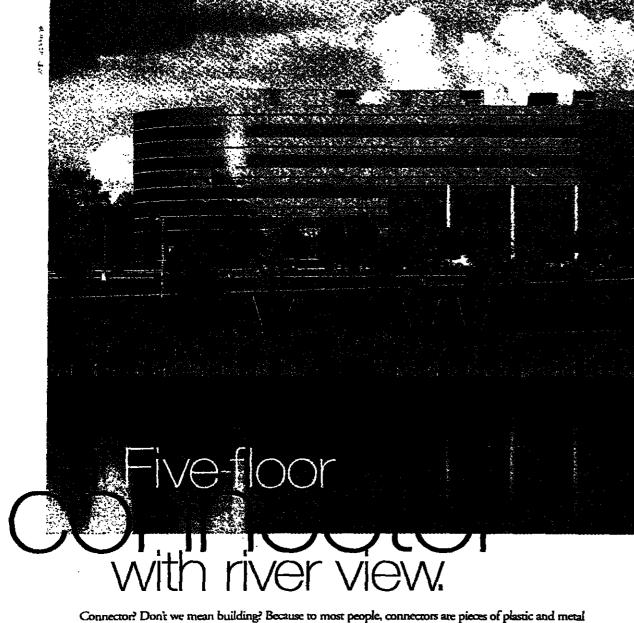
Last week diplomats were saying it was too early to decide about aid and playing down the extent of the prob-

Officials of the International Monetary Fund said they were waiting for a new government to be named before negotiating a \$200m structural adjustment But in a sign of what may be

to come, the Dutch broke ranks and resumed balance-ofpayments support. Weakening the donors' resolve is the awareness of

how desperately needed the aid is. One of the world's seven poorest countries, Tanzania is enjoying something of a miniboom, with a 3.5 per cent growth rate. "This fiscal year Tanzania

can afford to pay its foreign debts, its civil servants and that's it. There's no money left for schools, hospitals or anything else," says a diplomat. "You don't kick a man when



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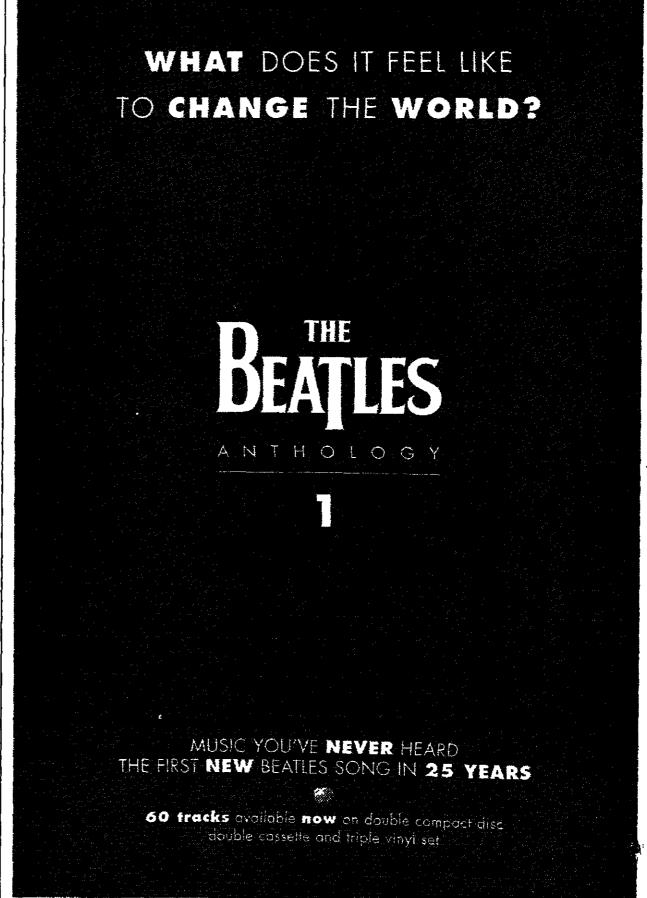
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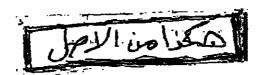
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Contraction,

# Hawke re-emerges to E Asian currency war chest set up back striking miners | East asias monetary might back striking miners | East asias monetary might be gurrency market inter multilateral institution co back striking miners

By Nikki Tait in Sydney

Mr Bob Hawke, the former Australian prime minister, yesterday made a roaring come-back as the working man's champion as he pleaded the case of the country's trade unions in their dispute with CRA, the mining group, before a full bench of the Industrial Relations Commission.

But, after 12 hours of arguments, the arbitration body said it was adjourning, and would leave the matter unre-solved until today. The nation's coal miners remained out on strike in support of employees of CRA's Comalco subsidiary at Weipa, northern Queensland, where it has large Hawke: virtuoso performance bauxite operations.

Efforts were under way by the Australian Council of Trade Unions - under IRC pressure - to persuade the striking miners to rethink. Maritime employees, who had also gone on strike in a show of solidarity, went back to work on Sunday.

The re-emergence of Mr Hawke - one-time president of the ACTU, but portrayed as a bitter and tarnished figure since surrendering the prime minister's job nearly four years



ago - came in a virtuoso performance, played to several

hundred people. His forceful advocacy won applause from hard-core Labor supporters, and seemed guaranteed to undermine the position of Mr Paul Keating, the current prime minister. Mr Keating predicted last Thursday that the Weipa dispute was within hours of being solved only to see it escalate into a national stoppage.
In his three-hour presenta-

tion, Mr Hawke invoked the shearers' strikes of the late 1890s, words of Abraham Lincoln, and thoughts of Adam Smith, the British economist, to bolster his case that Australian workers should have the right to bargain collectively, and should not be discriminated against for so choosing.

"What is at stake is much more than the resolution of an industrial dispute. What has been involved here is nothing less than an attempt by the company to overturn, not just the industrial relations system, but the social fabric of Australia." he claimed.

In reply, lawyers for CRA's Comalco subsidiary, which manages the bankite mining operations at Weipa, argued that the desire to sign workers to individual staff contracts, rather than reach collective agreements rested on a helief that this improved the way work was performed - and the minority of Weipa employees who have not signed individual contracts

claim that they are paid up to A\$20,000 (US\$15,000) a year less for similar work than colleagues who signed individual

that they are trying to pull the wool over the markets' eyes. But at a meeting of 10 bank governors and deputy governors in Hong Kong yesterday the idea of greater regional co-operation among central banks received a big public push forward.

The tangible evidence of this was the exchange of a series of bilateral securities repurchase ("repo") agreements between the monetary authorities of Australia, Hong Rong, Indonesia, Malaysia and Thailand. These agreements give participants access to immediate cash to help defend their currencies in times of market stress.

The size of the "repos", which enable cash to be deliv-ered against the security of US Treasury bonds, are not large in monetary terms - they are believed to allow each bank to mobilise between US\$500m and US\$1bn - but Mr Joseph Yam, chief executive of Hong Kong's monetary authority, says they represent the first concrete step towards a more formalised relationship between Asia's central banks. "I expect this co-operation to continue and strengthen in the months and

years ahead," he said. In spite of Mr Yam's opti-mism, it was clear from yesterday's meeting that the region's

1,726 \$6,171 8.7% National saving mile (average) 35.0%

culated on the basis of purcha Emesp = Buscutive Meeting of East Asia and Pacific Central Banks.
Members: Australia, China, Hong Kong, Indonesia, Japan, South Kores,
Malayeis, New Zeeland, Philippines, Singapore, Thalland

they held between them some

\$403bn of reserves, their com-

muniqué noted that in order to

"maintain currency stability and improve the integrity and

stability of the banking sys-

tem" there was a need for

closer ties.

unity of purpose still has some In spite of the scepticism in way to develop. This was driven home by the absence the markets, the growing attractiveness of Asia as an from the meeting of Singapore investment location for profes-"they couldn't find time to come," Mr Yam said) and the exclusion of the Philippines from the initial tranche of sional western investors has sensitised Asia's central bankers to the need for more co-operation. Many were unset-"repo" agreements. The latter omission - which Mr Gabriel tled, and annoyed, at the beginning of the year when prob-lems with the Mexican peso Singson, the Philippines central bank governor, says will be remedied by the end of the year – also raised questions in overflowed to Asia and many of the region's currencies suf-fered speculative attacks. the minds of economists about Although the participants at the meeting yesterday took some pride in the fact that

the exercise. "It is noteworthy that the weakest central bank [the Philippines peso has been under considerable pressure recently] in the region was not invited to join, given that they were pushing for these agreements in the first place," says Mr Shmon Ogus, economist at SBC Warburg, an investment bank,

than currency market intervention, even if the arrangements grew out of Asia's dose of Mexican fever at the beginning of the year. Yesterday Mr Yam said there were many areas of mutual interest which needed investigation and a coordinated policy approach. He cited banking regulation, the development of Asia's capital markets (particularly the debt market), and what he called "financial infrastructure", such as the introduction of a "real time" bank payments system, which would reduce credit risk by allowing immediate elec-

tronic settlement.
Mr Yam noted that Asia had both high levels of savings and big demand for foreign investment. "Are financial markets, banks, and equity markets adequately performing the role of channelling savings into investment? Perhaps financial markets are not as developed as they are in the UK or New York because there is a lack of market integrity. These are some of the things we want to talk about."

Mr Bernie Fraser, governor of the Reserve Bank of Australia, and Mr Yam are believers in a more formal structure in which central bankers can talk about and plan initiatives of Many central bankers would argue, however, that there is

more to regional co-operation. Mr Fraser suggested such a multilateral institution could be modelled on the Basle-based Bank for International Settlements, which groups the cen-tral banks of the Group of Ten leading industrial countries plus Switzerland.

The reasons put forward yesterday by bank governors for greater regional co-operation bore more than casual resemblance to those advanced by Mr Fraser. What was lacking, however, was his advocacy of an institution in which this activity could be pursued. Within Asia the inelegantly

named Executive Meeting of East Asia and Pacific central banks (Emeap), first estab-lished by a Bank of Japan initiative in 1991, may fit the bill. It comprises most states lying between Tokyo and Sydney with the exception of Taiwan, Vietnam and Brunei, but including China and Hong Kong - and appears to have developed credibility among

Central bankers discussed this yesterday, but reached no conclusions. Mr Yam said the option of existing co-operative arrangements into a multilateral institution - provided there were safeguards against it becoming a large bureau-cracy – had not been ruledout. Lessons from Asia, Page 14

ASIA-PACIFIC NEWS DIGEST

### Japan and US agree on troops

The Japanese and US governments are committed to maintaining troop levels in Japan to preserve regional and global security, a draft joint statement indicates. The document, due for release in Tokyo yesterday but delayed because President Bill Clinton cancelled his visit, specifies no cut in the US military presence on the southern island of Okinawa, which

hosts about three quarters of US military facilities in Japan. The leak of the draft could unsettle the fragile coalition of Mr Tomiichi Murayama, the prime minister, which has been under pressure to reduce the military presence in Okinawa after the alleged rape of a schoolgiri by US servicemen. The statement stipulates that 100,000 US troops be maintained in east Asia, including 47,000 in Japan, despite the end of the cold war. Mr Joseph Nye, US assistant defence secretary, confirmed in Tokyo that a review of bases in Okinawa would give priority to amalgamation and consolidation within the island rather than transferring them. Kuodo and Reuter, Tokuo

#### Arabs suspected over bomb blast

Pakistani officials were yesterday viewing Arab gunmen based in the cou suspects in Sunday's bombing of the Egyptian embassy in the capital, Islamabad. As Egyptian security staff arrived to investigate, immigration officials were keeping a close eye on Egyptian nationals leaving Pakistan.

The blast has come as a shock to Pakistan's security establishment. Many officials had considered it virtually impossible for anyone to bring up to 500 pounds of explosives the amount used in the bombing - into Islamabad.

During the past two years the government of Ms Benazir Bhutto, the prime minister, has tried to project Pakistan as a "moderate Islamic state". Hundreds of Arab gunmen have been forced to leave the country, while up to 20 have also been extradited to face criminal charges in other countries. In the past many gunmen have crossed into Afghanistan and sought protection from one of the many Islamic mujahideen groups in that country, only to return to Pakistan when the pressure has Farhan Bokhari, Islamabad

#### Sri Lankan troops enter Jaffna

Sri Lankan government troops yesterday marched into the Tamil rebel stronghold of Jaffna for the first time in five years, after a month-long offensive that has left thousands dead and wounded. Five soldiers and at least 40 rebels were killed in the day's fighting over Sri Lanka's third largest city, the military said. A division, including commandos and the elite Rapid Deployment Force, fought their way into the city. The government hopes the fall of Jaffna will make the rebels resume peace talks that were broken off in April. The rebels have been fighting for 12 years for their own territory. Most of the city's 120,000 Tamil civilians have fled in the last three

#### Hanoi improves take-up of aid

Victnam more than doubled its use of foreign aid lastyear. victnam more than doubled its use of foreign and lastyear, reflecting greater efficiency in planning and carrying out projects, the United Nations Development Programme said yesterday. A total of \$607m worth of aid – mostly in the form of low-interest loans - was spent in 1994, compared with \$287m. in 1993, and the UNDP projected that aid use would reach

\$690m this year. Governments and international institutions such as the World Bank gathered in Paris in 1993 and again in 1994 to assess Vietnam's progress in introducing free-market economic reforms and co-ordinate their pledges of financial support. Each year, however, Vietnam has falled to use all the resources offered because domestic red tape has slowed the

implementation of projects. The foreign donors pledged \$1.86bn at the 1993 Paris conference and \$2bn in 1994. They are scheduled to meet again on November 30 to set aid goals for the coming

Mr Don Brash, Reserve Bank of New Zealand governor, said the country's current account deficit appeared to have peaked at 4 per cent of gross domestic product and that recent increases had in part been the result of strong capital inflow

■ China's construction industry is forecast to grow at an annual rate of 12 per cent over the next five years and the government will further ease curbs on foreign investment in the sector. Mr Wu Zhinai of the Construction Ministry told Xinhua news agency.

■ Cambodia's annual rate of inflation fell to 6 per cent in October, and an official of the country's National Bank said it believed it would remain low for the rest of

■ The Tokyo Stock Exchange and the Japan Securities

Dealers Association yesterday reprimanded the Tokyo branch

of Merrill Lynch for unauthorised stock trading. Earlier this month the Finance Ministry ordered the branch partially to suspend operations for two days.

■ The European Union and Nepal yesterday signed a trade ■ The European Union and Ivebra Jesses as Jagues a trace and co-operation agreement that the Himalayan nation hopes will help it deal with an array of economic and environmental. We fly to the Far East from more European cities than any other airline.



From 13 cities in Europe, we offer a total of 42 flights to Singapore every week, more than any other airline. Always on board our exclusive

MEGATOP 747s. At Singapore's world famous Changi Airport you can connect to over 400 weekly flights throughout the Far East,

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### Deal allows return to work in Washington . . . for now

By Jurek Martin in Washington

The US government was operating more or less normally yesterday for the first time in nearly a week following a Sunday night deal between President Bill Clinton and the Republican leadership in Congress. Mr Newt Gingrich, Speaker of the House, conceded yesterday that the agreement meant that the proposed

\$245bn (£155bn) Republican income tax cut was now back on the negotiating table. But he took greater comfort in the fact that the president had agreed in principle to balancing the budget in seven years. Their compromise funds govern-ment operations until December 15, including payments of salaries for

the 800,000 civil servants laid off,

and buys at least some time for both

sides to reach a broader agreement on the 1995-96 budget.

But it does not cover raising the \$4,900bn federal debt ceiling. The US treasury, however, believes it has the means to avoid default before the end of the year.

The return to work makes more likely Mr Clinton's planned trip starting next week to Britain, including Ulster, Ireland, and to

Spain for a European Union summit. He had cited the partial government shutdown for not going to Japan last week, sending Vice President Al Gore in his stead.

However the length of the visit may still be dependent on negotia-tions over the broader budget with Congress, which has so far passed only six of the 13 regular annual

posed to have been agreed by October 1.

Mr Clinton may yet veto some that remain and a similar fate awaits the overall Republican "reconciliation" bill passed last week which embraces both the current year's budget, the tax cuts and reforms of the social safety net. The White House claimed the Republiedge in the agreement the president's budgetary "priorities". The temporary funding bill the Senate passed on Sunday night

which the House was considering yesterday contained some Republican concessions. It allows even those agencies the Republicans want to abolish 75 per cent of last year's budget, up from 60 per cent

### President of Haiti anoints his heir apparent

r Rene Preval, a for-mer prime minister of Haiti, is widely expected to be elected the country's next president in next month's election after winning support for his candidacy from the coalition which backs the current president, Mr Jean-Bertrand Aristide.

The candidacy of Mr Preval and several others, ended widespread speculation in Halti that the presidential election, planned for December 17, would not be held, and that Mr Aristide would remain in office after the expiry of his term in February. The constitution bars the president from a con-

secutive term. Mr Preval, who holds populist views similar to those of the president, has been "anointed" by Mr Aristide, according to diplomats in Portau-Prince, Haiti's capital. He is among several candidates who registered by the Wednesday midnight deadline, and will be supported by the Lavalas coalition which put Mr Aristide into office in the 1990 election, and which swept the protracted and controversial parliamentary and municipal elections earlier this year.

A former PM has won Aristide's blessing in next month's election. Canute James reports

An agronomist, Mr Preval months until September 1991 when Mr Aristide was overthrown by the military and exiled for three years. He was recently the head of an economic assistance fund financed by the World Bank, If elected president, he would carry on the "legacy of the victims of the coup" against Mr Aristide, he said.

Mr Preval would be strongly influenced by Mr Aristide who aides say plans to stand for the presidency in the election in

"Mr Preval is an ideological clone of Mr Aristide, and is less tolerant than Mr Aristide of dissenting opinions," said one diplomat. "If, as appears likely, he is elected, his policies will not be much different from Mr Aristide's. What we do not know is how he would deal with the controversial economic issues."

The government and legislators are divided over the implementation of economic reforms agreed with foreign creditors and donors as part of a deal on more than \$1bn in aid promised to Haiti over several months.

Aid to the hard-pressed economy has been delayed as the government vacillates over a potentially unpopular divestment of state enterprises.

"There has been a lot of talk as to whether there will be presidential elections or not." said Mr Chavannes Jean-Baptiste, leader of a peasant move-ment which is part of the Lava-las coalition, and who announced Mr Preval's candi-

"As he was the first democratically elected president, Mr Aristide wants to set a good example so that democracy can take root.'

Mr Preval's nomination and likely election will concern some of Haiti's foreign backers 🗬 who are keen to see more moderate politicians in control.
Behind the diplomatic convention of a willingness to work with anyone who is elected, foreign governments, particularly the US, will pay close attention to the tenor of Mr Preval's campaign for the presidency, which officially starts

on Thursday. Haitian officials are worried that the election could be adversely affected by an outbreak of violence last week in which seven people were killed. Diplomats also say the integrity of the vote might be compromised by administra-tive and logistical shortcomings which were a feature of

this year's parliamentary elec-The violence followed an angry call by Mr Aristide for Haitlans to disarm "criminals, terrorists and extremists", following the murder of a recently elected parliamentar ian who is the president's

Known supporters of the former military government and former soldiers were set upgand beaten by Mr Aristide's supporters. The president has since called for calm but the atmosphere in the main towns

### Opponents postpone next battle in budget war

Both the White House and Congress found something in the agreement to crow about, writes Jurek Martin

he best compromises allow both sides in a dispute to claim at least tion and at most victory. That was the message been the Bosnian peace procoming out of the Clinton administration and the Republican leadership in Congress in the wake of their Sunday night deal enabling the federal gov-

In fact, all that was accomplished was to postpone until December 15 – and conceivably for long after that - the next hig battle in the Great Budget War of the 1995-96 fiscal year. Mr Leon Panetta, White House chief of staff, and President Bill Clinton's chief negotiator, observed yesterday: "I don't think the American public should read a whole lot into

what was agreed last night." Although two new opinion polls yesterday continued to pin most of the blame on the Republicans, both sides sensed rising discontent with the partial government shutdown that began last Tuesday. If what had been mostly inconveniences, symbolised by the closure of the Grand Canyon and the Statue of Liberty, had turned into something worse, a

plague would have been declared on both houses. A factor in the administration's approach may also have cess, now poised between success and failure. Mr Clinton risks a sharp confrontation with Congress over the possible deployment of up to 25,000 US troops to enforce a settlement, as witnessed by the House vote last Friday against

In 1990, with US forces aiready in Saudi Arabia in the wake of the Iraqi invasion of Kuwait, President George Bush signed a budget agreement that broke his campaign promise never to raise taxes. But he later secured congressional approval for the Gulf war that

began in January 1991. On the surface, the Sunday night deal offered something to both parties. Mr Newt Gingrich, the Speaker of the House, was able to declare "a very historic achievement" in that the president had committed himself to the core Republican principle of achieving a balanced budget in seven years, using the economic projections of the Congressional Budget Office that imply deeper cuts



A satisfied President Clinton makes a statement on Sunday shortly after the agreement with Congress

in social programmes than pruning of government. would be the case using admin-

istration forecasts. But Mr Clinton could claim that the wording of the agreement did not give the last word to the CBO, since it would be subject to review by the administration's own economic forecasters and those of the private sector. An updated and rosier CBO scenario, likely given the 4.2 per cent growth of gross national product in the third quarter, would lead to less

More important to the administration was the fact that the agreement put just about all the more radical Republican attempts to reform the system back on the negotiating table, with the clear and explicit threat of more presidential vetoes if they are not watered down.

"You know what my stan-dards are," Mr Clinton said in answering Mr Gingrich's assertions, "and you know what I'll

seven years "must protect future generations, ensure Medicare solvency, reform wel-fare, and provide adequate funding for Medicaid, education, national defence, veter-ans, agriculture and the environment," a laundry list embracing all the most conten-tious and detailed issues.

Also included was the promotion of "tax policies for the orking poor", a reference to the Earned Income Tax Credit which is high on the Republi-can hit list. Even Mr Gingrich conceded yesterday that the proposed \$245bn tax cut, a controversial centrepiece of the Republican programme, was back in play.

do if we meet them and you'll

know what I'll do if we don't."

Mr Mike McCurry, the presi-

dent's press secretary, said that "for the first time the

Republican leadership in Con-

gress has acknowledged that

The agreement's text says

that any balanced budget in

his priorities count."

Whatever satisfaction the Republicans gained from their side of the temporary bargain was partly tempered by growls of discontent from the party's right wing. Senator Phil After months of broad hints and speculation, Senator Nancy Kassebaum amnounced yesterday she would not seek a fourth term, AP reports from

"My reason for this decision is very simple and purely has come for me to leave the Senate and pursue other challenges, including the challenge of being a grandmother," she said.

Mrs Kessebaum, Republican Senator for Kansas and a leading party moderate, said she delayed her announcement out of a concern of becoming ineffective in the Senate.

Gramm of Texas, encouraged by his second place in Satur-day's Florida "straw poll" of Republican candidates for the party's presidential nomination, took predictable aim at Senator Bob Dole, the majority leader, for sacrificing conservative principles in cutting a deal with the administration.

Mr Gingrich, seen in the polls as the principal villain in bringing government to a halt, could have problems in keep-

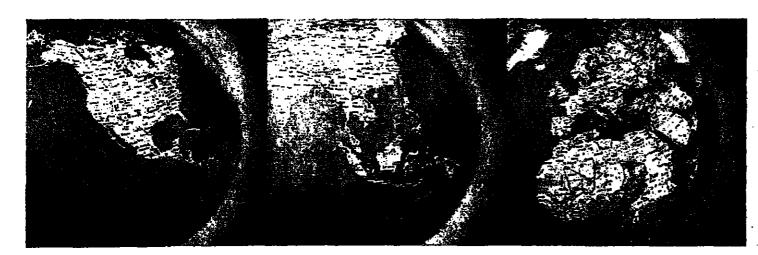
House members in line if accommodation goes too far in the weeks ahead. While wedded to the balanced budget principle, they have been uncompromising in their demands for detailed reforms of government programmes. Congressional Democrats,

however, now seem more united behind their president than for some time. Last Saturday's extraordinary session in the House saw them incensed by what they saw as excesses of Republican rhetoric by Mr Gingrich.

Congressman Jim Moran from northern Virginia was one of the 48 House Democrats who deserted Mr Clinton in voting for a tough temporary government funding bill last week. But on Saturday he got into a near fist-fight with a Republican and said he would not vote with the Republicans

in a hurry again.
Yesterday he added a necessary note of caution. "Everybody lost" in the Sunday night deal re-opening the govern-ment, he said. "It never should have happened." The real battle, over the proper role of government, was only now about

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### End in sight for strikes at Boeing and Caterpillar By Richard Tomkins strike ended today, Boeing

in New York and Laurie Morse in Chicago

Two big US strikes that have brought out thousands of workers at Boeing, the aircraft manufacturer, and Caterpillar, the heavy equipment maker, yesterday looked as though they could be heading for a peaceful resolution.

In Seattle, Washington, Boeing said it had reached a tentative agreement that could end a six-week strike by more than 32,000 members of the International Association of Machinists and Aerospace Workers. They could be back at work as

The strike was caused by disagreements between management and the machinists' union over terms for the renewal of the workers' threeyear labour contract. It brought out about a third of Boeing's total work force and had severely affected output.

Following the intervention of a federal mediator at the weekend, Boeing said agreement had been reached over revised terms for a package that left wages much the same but improved health, pension and lay-off benefits. Union leaders will be recommending their members to approve the pack-

age in a vote today.

Mr Bill Whitlow, an analyst at the Seattle-based Pacific

would probably deliver slightly more than 200 aircraft this year, instead of the expected 235. However, the shortfall would be made up next year,

Separately, the Illinois-based Caterpillar signalled that a settlement with the striking United Autoworkers Union may be near. The company and union representatives have been meeting for several months to resolve the 17month-old strike, which involves more than 5,000 workers at Caterpillar plants in the

"Although a few issues are yet to be resolved, we believe we are on the right path to reaching an agreement that is fair to UAW-represented employees and allows Caterpillar to maintain its leadership in a rapidly changing global marketplace," the company

Union officials said they would bring Caterpillar's pro-posal directly to the rank-andfile for a vote once it is finalised. Although company officials declined comment, the discussions may yield a six-year contract, the longest ever between the two parties, ana-

Caterpillar and the UAW have been battling for nearly five years over work rules and the company's resistance to

lysts said.

### Peru spells out Brady bond cost

Peru expects to spend about \$300m a year from 1997 on ser-vicing its Brady bonds, Mr Jorge Camet, the country's finance minister, said yesterday. Last month Peru became the last major Latin American nation to agree on a "Brady deal" with its creditor banks, under which some of its unpaid debt will be converted

Mr Camet, in London to meet potential investors, also said the country would privatise every state-owned company. "In a couple of years not one will remain, not even the railways," he said.

Peru's privatisation process had been due to end this year. However, it has slowed because of inflation fears and because the government lacks the capacity to spend all receipts on poverty reduction, as it is obliged to do under

Mr Camet said the government could service the Brady - named after former

US Treasury secretary Mr Nicholas Brady – without raising borrowing because it expected tax revenues to rise. to 20 per cent of gross domestic product by 2000. The increase would result from improved collection methods rather than any new taxes, the minister said. Tax receipts now total 14 per cent of GDP,

Speaking from offices of the Swiss Bank Corporation, Mr Camet refused to comment on claims that Peru had commissioned the bank to buy back up to \$1.4bn of the country's debt on the secondary markets, at a cost of \$600m, prior to its Brady deal. This annoyed some creditors, who thought the money should have been used to begin making interest payments on the

up from 4 per cent in 1996.

Peru plans to stage a Dutch auction next June in which it will buy back debt. The Brady deal would only gradually encourage foreign banks to tume lending to Peru, said

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Unions

Control of the Contro

Labour

backtracks

on Murdoch

nes Blitz at Westminster

Mr Tony Blair, leader of

Britain's opposition Labour

party, last night quashed a

call from a senior member of

his team for BSkyB, the satel-

lite broadcaster controlled by Mr Rupert Murdoch, to be

investigated by the Monopo-

lies and Mergers Commission. Mr Richard Caborn, Labour's shadow competitive-ness minister, had earlier in

the day written to the deputy prime minister, Mr Michael Heseltine, calling for the

probe. However, he was acting

without the knowledge of Mr

"The letter is inoperative; it

The incident is the latest

indication of the extent to

which all important policy-

making is controlled by Mr

Blair's office.
It is also likely to be inter-

preted as further evidence of

Mr Blair's reluctance to wage

war against Mr Murdoch,

whose News Corporation con-glomerate owns the leading

share of the UK national news-

that he had dropped a clan-

ger", said a party official. "He

asked us how he could put it

"Dick pretty quickly realised

does not represent party pol-

icy", a Labour official said.

Blair and Mr John Prescott. the party's deputy leader, in

criticism

By Robert Peston and

# Unions order disruptive action at GM factories

**Employment Editor** 

Vauxhall Motors, the British offshoot of General Motors, refused last night to improve a 3.5 per cent pay offer in spite of an overwhelming vote by its manual workers in favour of a strike.

Trade unions at the company's factories in Luton, about 100km north of London, and Ellesmere Port in north-west England, will impose a ban on overtime work and a two- an 11 per cent pay rise and a cut in

Mr Tony Woodley, the Transport and General Workers Union national officer for the car industry, said: "Our members expect us to apply pressure on the company to secure an improved offer. We are anxious to avoid an all-out strike. The action we are taking at this stage is the minimum considered appropriate in response to the massive vote for a strike." The unions are demanding

hour cut in the basic working week from 39 to 37 from November 29. the basic working week from 39 to 37 hours. hours.

In the postal ballot organised by the TGWU and the AEEU craft union, 5,201 workers (78.4 per cent) voted for strike action and 1,425 (21.6 per cent) voted against it. While 5,971 voted for action short of a strike, 684 voted against. The turn-

out was 92 per cent.
Mr Bruce Warman, Vauxhall's industrial relations director, said last night: "We are not going to increase our pay offer or make a cut

in the working week. It is time to face reality. There are times and this is one of them where you have to be prepared to take it. We are not going to make any big bold changes in our

He said the total package was worth 5 per cent in the first year with an extra day's holiday and a car sale scheme on top of a 3.5 per cent basic pay rise. Workers would get a pay rise equivalent to the retail price index rise plus 1.5 per cent next November in the second part of

Vauxhall is determined to resist any cut in working hours. "We believe this demand is being driven by the outside agenda of the unions," said Mr Warman. "It would hit our competitiveness and we will

not give way on this." Vauxhall's management will be formally told of the union's decision at noon tomorrow under the law covering industrial action that requires that companies must be given seven days' notice

of any planned disruption. Despite Vauxhall's statement, union negotiators are hopeful the company will improve its offer substantially. They point to Ford which has proposed a 4.75 per cent basic wage increase for its manual workers although union negotiators

rejected that offer last wee Shop stewards from all the Ford plants are due to meet tomorrow. They may decide to proceed with a strike ballot of the company's 22,000

### Major demands answers on EU single currency

By Robert Peston,

Prime minister John Major will battle to prevent a single European currency being created in 1999 unless the European Union resolves uncertainties about the consequences of only a small core of countries par-

ticipating in monetary union. In a speech designed to gloss over the split in his own party about whether the UK should participate in monetary union. Mr Major posed a series of questions which he said must be answered "before a single currency goes ahead".

He said at the annual Lord Mayor's banquet in London that it was "accepted across Europe" that only a minority of EU members would be ready for monetary union in 1999.

"The price of error would be too high for Europe", he said, if a small group of countries then merged their currencies without examining the problems created by a two-tier monetary Europe.

He listed four issues which need to be resolved: • How would a single currency and the EU curren-

cies outside co-exist? How would Europe's institutions serve the interests of those which adopted the single currency and those who did

 What would be the implications for the single market of competitive devaluations by

those outside the monetary core? What would be the effect on

the EU budget? His speech may anger other EU governments, if they see it as an attempt to jeopardise the monetary union project. Some resent his provocative approach to the single currency debate, since the UK is one of only two EU countries which does not have to participate in monetary union. whether or not it meets the convergence criteria.

There were also signs last night that Mr Major's public airing about the dangers of a premature merger of currencies failed to placate the Eurosceptic right of his own party. "What he failed to address is whether he personally favours a single currency", said a rightwinger

An EU heads of government summit in Madrid next month is expected to discuss monetary union and may decide the name of the new single cur-

Mr Major reiterated his determination that public spending should fall as a percentage of national income "below 40 per cent" from 42 per cent now. He said that "we are doing well" by spending relatively less than other European countries, but "not well enough". He pointed out that "both America and Japan spend less and tax less than we

The economy Construction industry weakness blamed as estimates revised downwards

### Growth figures highlight slowdown

By Graham Bowley and Alison Smith

The British government was yesterday handed fresh evidence of a slowdown in the economy when estimates of growth in the third quarter of the year were revised down-

The Central Statistical Office said the economy, excluding oil and gas extraction, grew by only a seasonally adjusted 0.3 per cent between the second and third quarters of the year. This is the lowest quarterly rate of growth since the final three months of 1992 and down

from original estimates of 0.5

per cent growth in the third Weakness in the building industry accounted for most of the downward revision in GDP; construction industry output fell by 1.4 per cent between the second and third quarters

Quarterly projetty rate (%) By expenditure (2m) GDP

New signs of economic slowdown

that new home loans made by building societies reached their lowest level for more than 15 years while mortgage lending by banks, whose market share has been increasing, also fell.

Clarke, the chancellor, to boost the economy by cutting taxes at next week's Budget and possibly also lowering interest rates soon.

Fixed capital formation

1990 91 92 93 94 95

Mr David Mackie, an econo-

interest rates are coming since the autumn of 1992. Sepadown. The Bank of England is rate figures for mortgage lendgoing to find it very hard to resist lower interest rates."

The Treasury said that the figures showed that the recovery had clearly slowed but that the fundamentals remained in place for sustained healthy growth.

However, some economists warned that the pattern of growth boded badly: much of the growth in the third quarter stemmed from a build up in stocks of unsold goods; if companies run these down in the coming months, activity could slow further.

Further signs of weakness came with figures showing that new mortgage lending last month was significantly lower than in September.

New net lending by building societies was just £295m in October - less than half its

ing by the high street banks also showed that new business was falling.

The fresh evidence of gloom is likely to intensify calls from Tory MPs for special help for the housing market in next week's Budget. However, there is no sign that the Treasury is departing from its earlier belief that maintaining low interest rates is better for the housing market than, for example, extending mortgage tax relief or helping first-time buyers.

This was partly offset by a rise in consumer expenditure of 0.7 per cent in this period. Measured overall the econ-

omy, including oil and gas, grew by 2.1 per cent in the year to the third quarter, compared with an original estimate of 2.4 per cent. This was sharply down from the annual growth in the same quarter of 1994 of

In the summer, Mr Biair angered many of the party's traditionalists - who cannot forgive Mr Murdoch for the anti-Labour tenor of his newspapers' coverage in the run-up to the last general election · by flying to Australia to address a News Corporation management conference.

paper market.

Mr Caborn had been taking close interest in BSkyB as chairman of the commons trade and industry committee until last month, when he joined Labour's frontbench team. At the heart of his concern about BSkyB is its role as a "gatekeeper" for access to

the UK cable and satellite sector, as the dominant distributor and because of its exclusive programming

#### The figures will add to the mist at JP Morgan, the US September figure. This was the pressure on Mr Kenneth bank, said: "This tells you that sharpest month-on-month drop Separate figures also showed confidence remains

By Gillian Tett,

Economics Correspondent

In spite of the possibility of tax cuts, there is still little sign of any upturn in UK consumer confidence, a survey yes-

The survey, conducted by the research group GfK for the European Commission, suggests there has barely been any change in consumer sentiment over the past six months. Comparing this confidence level with

earlier periods is difficult because GfK took over the running survey (previously conducted by market research organisation Gallup) in the summer, resulting in a break in data.

But rough comparisons suggest that confidence is better than it was during much of last year - albeit still down from the levels of previous recoveries. Slightly more of the 2,000-odd households surveyed in November expect their financial situation to deteriorate

over the next year than improve. Fifty six per cent of households believe that their finances will remain unchanged - the same proportion as in

However, 16 per cent expect them to get a little worse - the highest proportion for six months.

The proportion of households expecting to make a major purchase has also deteriorated slightly - 32 per cent of people think now is a bad time to buy a large item, the highest level for six

The amount of money people plan to spend over the next 12 months has barely changed, with only 12 per cent anticipating higher expenditure.

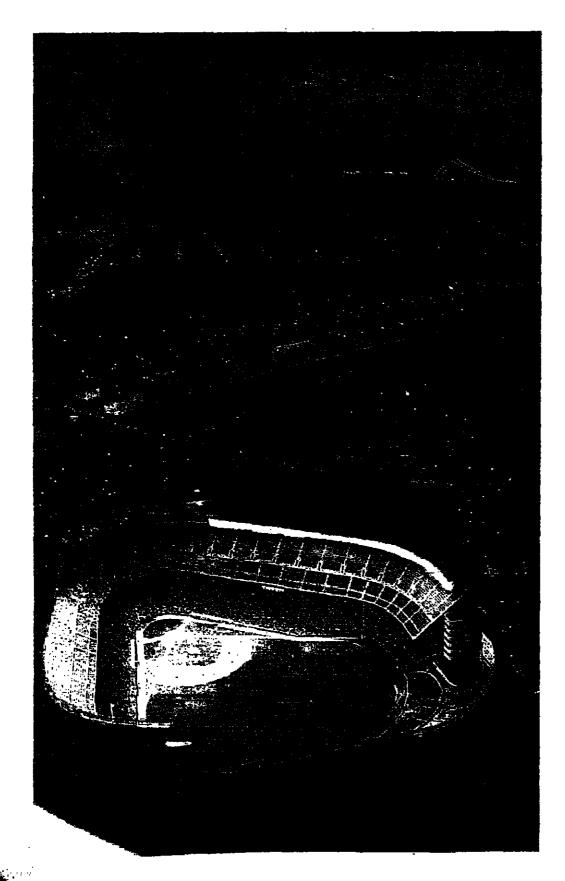
Meanwhile, almost half of the people surveyed said that they were "just man-

aging to make ends meet", with only 4 per cent saying that they were managing to save "a lot."

The public's perception of growth has barely changed, in spite of the intense debate in the City about any broader "slowdown." Forty-two per cent believe that the situation will remain unchanged, while only 18 per cent think it will get a little better.

However, the low inflation message does seem to be hitting home, with people thinking that prices have grown slightly more slowly over the last year than in the summer.

arrangements.



Can you light up the sky without clouding the air?

Natural gas - affordable, safe and available - is an increasingly popular choice for driving turbines that generate electrical power all over the world. Although it

burns relatively cleanly, combustion does produce nitrogen oxide, implicated in acid rain. Abatement techniques have reduced emissions, but heightened awareness among the industrial nations continues to generate tighter legislative controls and the development of ecologically-sound power plants.

Conventional methods of controlling emissions are costly and dampen efficiency. However, ABB research has now developed a way to burn them off. It is a total solution, reducing pollutants while maintaining efficiency, thus consuming less fossil fuel. ABB has installed its innovative "EV-burner" in the Midland Cogeneration Venture, a joint project to produce power for the Dow Chemical Company and the State of Michigan, USA. At full power load, this plant is now producing emission levels well below the world's most stringent requirements.

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Privatisation of rail freight network 'The government appears to be going ahead with a unified sale'

### JS companies bid for heavy-load franchise

Transport Correspondent

Government efforts to break up the state rail network's freight operations risk being frustrated by the narrow range of bidders from the private sec-tor. The aim of the break-up is to increase competition.

One of the US companies which is bidding for all of British Rail's heavy haul freight business has also made an offer for Rail Express Systems, the BR subsidiary which carries the Royal Mail.

At the same time, a management team which is bidding for Freightliner, which runs con-tainer trains between seaports Who wants what?

Targets: Rail Express Systems

buv-out team Wisconsin Central MCB team of

Freightliner managers

and inland rail terminals, has also put in a bid for Rail Express Systems. The Rail Freight Group, which represents freight opera-tors and their customers, has urged the transport department to retain competition for the benefit of customers. "Many customers feel that BR

Trainload Freight buy-out teams

Wisconsin Central

First RailFreight has soaked them in the past and are opposed to a monopoly being continued when the rail-way is privatised," said Ms Julia Clarke, director of the group. "We are concerned that the government appears to be

going ahead with a unified There are five bidders for

British Rail's Trainload Freight companies, which move cargoes such as coal, steel and aggregates. They are three management buy-out teams; the Wisconsin Central Transportation freight railroad; and First RailFreight. The Omnitrax freight railroad company of Denver, Colorado, and Pieter Kiewit Sons, a large

US construction group, are the majority shareholders in First RailFreight. Omnitrax operates 12 shorthaul freight-only lines on 2,400 km of track. It has revived defunct services and has invested in trackside handling facilities such as grain eleva-tors to persuade customers to Mr Dwight Johnson, president. The three bidders for Rail Express Systems are Wisconsin Central a team of RES managers, and MCB, a team of former managers from the Freightli-

ner group which is also up for sale. The MCB team are also bidding for Freightliner itself. The are concerns that the Trainload Freight businesses, with combined sales of £560m. are too large and too complex for US operators with no experience of operating in the UK, where freight shares track with very busy passenger services. Wisconsin, which recently acquired New Zealand Railway, had turnover of

to be the largest privately owned US freight company. It is part of The Broe Companies, a holding company with property and electronics interests.

Rail Express Systems runs travelling post offices and other specialised trains which carry 30 per cent of all Royal

The first sign of difficulty in attempts to break the freight railway into smaller units appeared last month when it emerged that management buy-out teams from the three Trainload Freight companies were being encouraged to bid not just for their own business but for the other two as well.

Performance of schools Teachers' trade unions attack government league tables of examination results

### Education in England 'increasingly polarised'

By John Authers in London

Government annual performance tables for schools, published in detail for the fourth time today, brought fierce criticism that they were making English education increasingly polarised.

The proportion of 16-year-olds gaining five GCSE passes of at least grade C, the traditional requirement for moving on to the sixth form, increased slightly for the third year running from 43.3 per cent to 43.5 per cent. Sixteen is the earliest age at which pupils are allowed to leave school.

But the proportion failing to gain even one pass at the lowest grade (G) also rose from 7.7 to 8.1 per cent. In 1993 school-leavers had no Scotland, which has a different examination system from England, yesterday announced improved results for 16-year-olds. The number of pupils entering for Standard Grade - the qualifications taken by school-leavers - has remained fairly stable between 1993 and 1995. But the proportion gaining high-level "credit" awards - the top two grades - has risen. The proportion gaining five or more

qualifications. Mr Peter said the tables were helping to Kilfoyle, the opposition Labour party's shadow schools minister, said: "There is a twelvefold gap between the top and bottom 20 per cent of GCSE results. We clearly need to do more to lever up the standards of those getting low

grades or no grades. He criticised the government for failing to publish data on whether schools were improving. The government

make progress towards national targets on education and training. Teachers' trade unions said the indicators were "too crude", "flawed" and "failed", and attacked the

expense they involved. However, Mr Peter Smith, general secretary of the ATL teachers' union, said the tables had identified "two pressing problems - an increasing number of children who leave

This is still far short of Scotland's target that by the end of the decade 85 per cent of 19-year-olds should have reached this level. school with no qualifications

and the out-performance of

qualifications at credit level - treated by

ministers as an important yardstick - has

A total of 51 per cent of 16-year-olds gained at least five Standard Grades at the top three

grown by 4 per cent since 1993.

boys by girls" Today's data confirm that the worst performance is concentrated in urban areas of high deprivation. An FT analysis shows that there are 35 schools in England in which quarter or more of 16-year-olds failed to gain any qualification. Only two are in "shire" counties away from the

biggest urban areas. This

Most are maintained by their local authorities, but three are

grant-maintained, having opted out of their council, and five are church foundations. Some of the schools with the poorest showing on this statistic still saw a healthy proportion gaining at least five suggesting that abler children might receive more attention. There were 14 schools where 20 per cent or more left with nothing, while at least 20 per cent of children

gained five Cs. The row over polarisation in the state system deflected attention from the division between the independent and state sectors. This showed a strong out-performance by

figure does not include special fee-paying schools, with 77.53 schools for children with per cent gaining at least five per cent gaining at least five Cs compared with 40.24 per cent in local authority schools, and 58.76 per cent in grant-maintained schools which include most grammar

schools. When measured by their ability to gain at least some qualification for every child, the independents' advantage was less marked, with 6.24 per cent of their pupils failing to get at least one G. The equivalent figure for council schools is 6.99 per cent.

Girls' schools strongly out-performed boys' schools, confirming a long-running trend. In local authority schools, 63.01 per cent of girls' school pupils reached the five C threshold, against 45 per cent in boys' schools.

### Diana show will bring more than \$1m to BBC

Cash payments to the BBC from outside the UK for the right to broadcast last night's interview with Princess Diana are thought to have exceeded £1m (\$1.56m). Broadcasting organisations in at least 12 countries have bought the rights, with the biggest paynent coming from the ABC network in the US. The interview, broadcast in Britain in the BBC's Panorama series. has also been sold in Canada,

No details were released to

with other women and hers with other men. In France the programme has been bought by the

adviser to Princess Diana, said yesterday that he had decided to stand down from the job. His move came after she arranged her interview with the BBC without informing staff at Buckingham Palace. Mr Crawford, an Australian government official, will remain in the palace staff.

PA News Reporters in London

Japan and Germany. bayers or the viewing public about the princess's comments, and there was feverish speculation in the weekend press in Britain that she would refer to the state of her marriage to the Prince of Wales and to his relationships

national TF1 network, but a bid from its rival Canal Plus was withdrawn because the film was shown last night on BBC satellite and cable chan-Mr Geoff Crawford, press

Editorial comment, Page 15

UK NEWS DIGEST

### Treasury may scupper London rail link project

CrossRail, the £2.1bn (£3.30bn) project to build an east-west rail link under London, is threatened by a Treasury attempt to restrict funding, said the Corporation of London (the municipal authority for the City of London) said. A report on CrossRail, now being studied by transport secretary Sir George Young, is positive in its conclusions about the project. But backers of CrossRail fear its funds could be cut as part of the present budget review.

The project needs £1-im a year to maintain the team of engineers and planners involved and will require a further £9m to take it through parliament. The CrossRail team hopes to put a draft order before parliament in March to start the to put a draft order before parliament in March to start the procedure under the Transport and Works Act to approve the scheme. CrossRail, linking Paddington station to the west and Liverpool Street in the east, would bring Heathrow airport within 26 minutes of the West End and 30 minutes of the City. Charles Batchelor, Transport Correspondent

#### Fines set on illegal workers

Employers will face a fine of up to £5,000 (\$7,850) if they offer a job to an illegal immigrant without checking that the employee is entitled to work in the UK, Mr Michael Howard,

employee is entitled to work in the OK, are kichael Howard, the home secretary, announced yesterday.

In a consultation paper being sent to employers' organisations, Mr Howard said the government believed that the 10.000 people caught working illegally last year represented "only a small proportion" of the total problem. The consultation paper discloses that under the controversial asylum and immigration belt consultations could be convicted of employing illegal tion bill, employers could be convicted of employing illegal workers if they fail to make one of several specified checks. The checks include asking to see potential employees' National Insurance numbers, birth certificates or passports, or certificates of registration or naturalisation as British citizens. Employers who fail to undertake at least one of the checks would have no defence against a charge of employing an

illegal worker. However, the consultation paper warns employers to be "careful" not to lay themselves open to allegations of ers to be "careful" not to key control of the discriminatory employment practices.

\*\*Revin Brown, Westminster\*\*

### Hours cut 'boosts productivity'

The introduction of a shorter working week in the British engineering industry in recent years has not led to any direct loss of jobs but, in many companies, has led to an increase in productivity as well as greater flexibility. According to a study published today by Industrial Relations Services, the independent research organisation, a shorter working week has also enabled companies to harmonise terms and conditions of employment between manual and white-collar workers. However, eight out of 21 companies said they had suffered an increase in costs as a result of the hours reduction because of Robert Taylor, Employment Editor overtime payments.

#### Architecture award for stadium

A futuristic stadium in the heart of an industrial Yorkshire town was yesterday named as the best building in Britain. The £18m (\$28.26m) Alfred McAlpine Stadium (below), home of Huddersfield's football and rugby league clubs, has won the Royal Institute of British Architect's Building of the Year



Luder enthusiastically described it as "spectacular, yet straightforward," and added: "If it had been built in Nimes. Bologna or Stuttgart we would have admired it from afar and wondered why it was impossible to build such a building in

### British Coal outsourcing deal

British Coal has contracted out the administration of its

pensions, concessionary fuel and employers liability claims -currently handled by its Sheffield-based Centris operation - to three UK subsidiaries of AON Corporation, the US insurance broking group.

The deal, which involves the transfer of nearly 400 staff, is thought to be one of the UK's biggest financial services related outsourcing exercises. The administration of pensions for

more than 500,000 former British Coal employees will be taken over by Godwins. The concessionary fuel scheme, which serves almost 200,000 retired miners and widows, will be handled by Rollins Hudig Hall. Employers liability claims will be managed by IRISC. The Centris name will be retained. AON, which has 2,000 staff in the UK, has been awarded the contracts for an initial five years.

Beatles' birthplace bought: On the day that the first "new Beatles single for 25 years was released, the National Trust the charity which safeguards England's architectural heritage announced that it had bought a former council house in Liverpool which was home to Paul McCartney's family and regarded as the birthplace of the band. The terraced house, 20 Forthlin Road, Liverpool, which was McCartney's family home for nine years, was purchased for an undisclosed price. It is the most recently built property to be acquired by the Trust – and the first connected with the pop world.

### Few legal jobs for ethnic students, study indicates By Robert Rice, for would-be solicitors was about £5,000 (\$7,850) and £6,000

Legal Correspondent

career in the law.

Entry to the legal profession in the UK still depends on money, race and background, according to research published yesterday by the Law Society, the governing body of the solici-tors' (lawyers with the broadest range of advocacy and other work) profession in England. The study, which has followed the progress of 2,000 students since 1992, shows that ethnic minority students still face the biggest barriers to a

The society says financial problems are the principal reason why many students fail to become lawyers. Around 75 per cent of those who had taken the solicitors' and barristers' finals courses were in debt. Barristers, who are briefed by solicitors, usually appear only in higher courts. Average debt ground was particularly strong

(\$9,470) for would-be barristers. But the biggest financial problems are faced by those who are already at some other disadvantage, such as older students, women, ethnic minorities and those from poorer backgrounds.

Two out of five who applied

for a two-year traineeship with a law firm did not receive an offer. Applicants with links to the profession, either through ssion, either through their family or past work experience had a better chance of being offered a job. Taking account of academic

achievement, links to the profession and family background, the survey by the Policy Studies Institute found ethnic minority candidates were less likely to gain a traineeship with a law firm. The influence of ethnic back-

below-average academic ethnic minority candidates with average academic results obtaining a traineeship was about 40 per cent less than white candidates with similar academic results. The study also found that

the type of institution candidates attended to study law was an important influence on their chances of getting a traineeship. Law firms showed a strong preference for graduates of Oxford and Cambridge universities even when candidates from elsewhere had better academic qualifications. Mr Martin Mears, president

of the Law Society, said: "D's ethnic origin is wrong and can never be justified. I am quite sure the great majority of law firms do not intend to discrimi-



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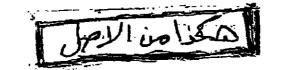
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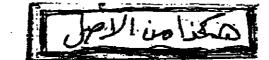
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### **TECHNOLOGY**

### Disease tions and complexity. The most visible signs of the protein located

ew studies are helping to explain the mechanisms that lead to Huntington's Disease, the debilitating brain disorder, and may pave the way for the discovery of therapies.

The studies, presented at the annual meeting of the Society for Neuroscience, are the first to emerge that characterise the protein encoded by the gene for the disease, trace its distribution in the brain and identify a target for the gene.

"This is very good research." says Anne Young, a neurologist at Massachusetts General Hospi-tal, in the US. "Just two years ago, the gene for the disease was found and we already have for the first time some tangible approaches to look for therapies for the disease. It is really excit-

Huntington's is one of the more common inherited brain disorders. It destroys nerve cells in the basal ganglia, an area of the brain involved in movement, and in the cortex, the seat of memory and thought.

In one study, Johns Hopkins Medical School researchers identified an abnormal protein made in the brain that may cause the

The finding, published in Nature magazine, raises the possibility of finding drugs that inhibit the protein. This would slow or even prevent the disease's development, says Christopher Ross, who led the

In 1993 the gene for the dis-ease was identified on chromosome four, but its function and its target were a mystery. Ross's group identified an abnormal protein called HAP-1 that bound tightly to the protein encoded by

"HAP-1 selectively kills neurons in the brain, not cells elsewhere in the body," says Ross. "This seems to be a brainspecific protein, suggesting that it may be involved in the disease process. If we are right, then we can screen for compounds capa-ble of inhibiting the interaction of these proteins."

Marjorie Shaffer

he ancient philosophers thought of the sun as perfect. Modern scientists are fascinated by its imperfec-

sun's complexity are the storms, spots and flares on the surface. Physicists are also puzzled by its atmosphere which is far hotter than parts closer to the core. Just as mystifying is the solar wind, the stream of particles and radiation blown out from the centre.

These features are of more than abstract curiosity as disturbances on the surface of the sun may have important effects on the earth's climate. Moreover, the solar wind can wreak havoc with the earth's magnetic field. Although this field shields the earth from the full blast of the sun's wind, it manages to penetrate at weak points, producing geomagnetic storms, power blackouts and disruption to navigation and communication systems. in 1989, for example, fluctuating magnetic fields caused by an explo-

sion on the sun shut down a nuclear plant in New Jersey and blacked out power across Quebec. Better forecasting would limit the damage from this type of event. This goal, underpinned by the need for a better theoretical understanding of the sun, is being addressed by the European Space Agency. It has launched a solar-terrestrial science programme, devoted to studying

ways in which the sun's rays and the solar wind affect the earth. The first part of this programme is Soho, the Solar and Heliospheric Observatory, which is scheduled for launch on November 23 by Esa (which is responsible for two-thirds of its £400m funding) and Nasa, its North American counterpart. Soho will provide the first continuous, uninterrupted views of the sun Never before have solar physicists had the opportunity to work with such a comprehensive observatory giving them access literally to the whole sun," says Martin Huber, head of ESA's space science depart-

Soho will fly in an elliptical orbit around a point where the gravita-tional pulls of the earth and sun cancel each other exactly. This point, 1.5m km sunward from the earth, is known as the inner Lagrangian point, after the French mathematician who calculated its position at the end of the eighteenth century.

The instruments on the spacecraft will be by far the heaviest and most complex payload yet carried in an ESA mission. There will be 12 instruments developed by scientific institutes in 15 countries, led by teams in Germany, the UK, France, the US, Finland and Switzerland. The mission, which will take at

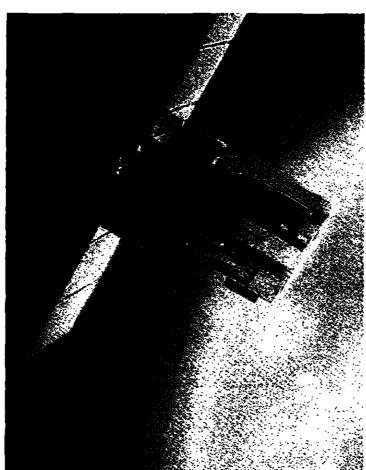
extended to six, has three main

Light shed on the sun

Solar scientists will soon have access

to data that may solve several

puzzles, writes Vanessa Houlder



In orbit: Soho will provide the first continuous, uninterrupted views of the sun

The first is to study the structure and dynamics of the solar interior. ESA scientists hope to establish the physical properties of the sun's deep interior in much the same way as scientists use earthquakes or seismic waves to decipher the earth's internal structure.

The throbbing motions of the sun's visible "surface", or photosphere, are caused by sound waves least two years and may be trapped inside the sun, in the same way as the surface of a speaker in a

music system moves up and down with the beat of the music.

Soho will carry helioseismology instruments to measure these tiny oscillations. Detailed analysis of the data will allow scientists to make deductions about the sun's structure. The task is comparable to working out the structure of a violin just from listening to its sound, according to Douglas Gough, professor of theoretical astrophysics at Cambridge University, who will lead the team interpreting this data.

The information from these instruments could be significant. The Soho scientists hope the data will improve their understanding of the solar dynamo responsible for the sun's magnetic field and will establish the temperature at the centre of the sun, thus shedding light on a discrepancy known as the solar neutrino problem.

Solar neutrinos are the insubstantial, subatomic particles created in vast quantities in the core of the sun that travel almost unimpeded through matter. The problem is that fewer neutrinos have been detected from earth than expected, given what is thought to be the temperature at the centre of the sun. ture at the centre of the sun.

Scientists hope Soho will determine whether the solar neutrino problem stems from a faulty estimate of the temperature at the sun or an error in current theories about how neutrinos behave.

The second main objective of Soho concerns the heating mechanisms of the sun's atmosphere.

ESA hopes that various spectrometers and telescopes will help clarify one of the most fundamental, unresolved paradoxes of modern solar physics". The solar atmosphere, or corona, is several bundred times hotter than the photosphere, which is nearer the centre of the sun, apparently in contravention of one of the basic laws of physics that bars the flow of heat from a cooler to a hotter region.

The Soho mission may suggest possible mechanisms, possibly involving kinetic or magnetic energy, for heating the corona.

The third objective is to investi-gate the solar wind, the rarefied mixture of subatomic particles and radiation that streams out from the sun, sometimes at supersonic velocities. Soho will carry three solar wind measurement instruments that will attempt to map out its structure, measure the charged particles it contains and determine its temperature, density and velocity near the sun

The goal will be to find out wherethe components of the solar wind come from and what forces propel it to such high speeds.

The Soho project's launch will be followed soon by the Cluster mission, which will study where and how solar particles break through the earth's magnetic shield; and several radars have been installed to record fluctuations in the earth's magnetic field in Iceland, Finland, Norway and Sweden.

The combination of spacecraft and radar promises to give solar physicists an unprecedented amount of detail. In the view of the UK's Particle Physics and Astronomy Research Council, they are primed to "make a significant advance" in understanding how the sun influences the earth.

### Reaching new heights

Miranda Eadie looks at plans for an international space station

uropean ministers have approved Europe's participation in the International Space Station Alpha. a permanently manned orbital research centre which will be assembled in space between 1997 and 2002.

Europe will contribute the Columbus laboratory, in which astronauts will carry out experiments exploiting the weightless environment of space. It will also build a transfer vehicle which will ferry cargo to and from the space station and reboost it to keep it in orbit. Studies for a crew transfer vehicle will also be done, although a final decision for this part of the project will not be taken

until 1997. The programme will cost Europe Ecu2.8bn (£2.3bn) including Ecu1.4bn before 2000. The largest contributions are coming from Germany (41 per cent) and France

(27 per cent).
The decision to go ahead has come as a relief to the European Space Agency, since the Alpha programme has been beleaguered by economic problems since it began. "This is a landmark for the European space industry," says François Fillon, the French minister of information technology, "It is again unified and its future

As the accord was signed in Toulouse, 400km above the earth Thomas Reiter stepped outside the Russian space station Mir to become the first ESA astronaut to walk in spac

Reiter is taking part in the second European/Russian mission, Euromir 95. He will spend almost six months in space, a record for a western

European astronaut. Reiter is also making history by being the first ESA astronaut to act as a flight engineer on board Mir. He is responsible for engineering tasks such as operating the critical life support systems which keep the space station habitable.

The purpose of the space walk, which he is making with the Russian astronaut Sergei Avdeyev, is to install equipment on the outside of Mir which will collect cosmic particles. Analysis of these particles will give insights into the origin and evolution of the solar system and will contribute to the understanding of their impact on the degradation of equipment in the

space environment. The space walk will also provide vital experience in preparation for the orbital construction of the international space station.

During a normal day on Mir, Reiter spends about two hours doing checks and maintenance, one to two hours exercising, and four-and-a-half hours conducting experiments. No work is scheduled for the weekends, allowing time to

relax and speak to his family.

Most of the 41 experiments are dedicated to research in human physiology. By investigating the effects of weightlessness in space on the human body, scientists can obtain new insights into its functioning. Not only do these help in the provision of countermeasures necessary during space flight, but they can also help in the treatment of people suffering from certain bodily malfunctions on earth.

"The more you know about a system, the easier it is to diagnose what's wrong when a pathological situation arises," says Heinz Oser, the chief life scientist in the ESA microgravity programme.

This is a landmark for the European space industry. It is again unified and its future restored'

Several of the experiments are investigating the cause of bone mass loss which occurs in space, a condition similar to that seen in menopausal women suffering from osteoporosis.

Means of counteracting this reduction, either by supplementing the diet with vitamin K (known to play a role in mineral and protein uptake in bone remodelling) or by simulating the mechanical impact of walking (by striking the heel for short periods each day) are being investigated. Since bone mass loss occurs about 10 times faster in space than on earth, significant results could be obtained.

Other physiological experiments are examining the cardiovascular system, spatial disorientation and

Means of counteracting muscle weakening and the shift of fluids towards the head are also being

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### No certainties about securities

The gap between modern financial practices and the majority of the world's laws on securities ownership and transfer is causing increasing concern in global capital mar-

As the volume of securities traded in local and international markets each day has grown dramatically in recent years, so have the risks for investors and financial intermedi-aries associated with the failure of a financial institution\_

The inadequacies of most national securities laws are such that many lawyers believe unless they are corrected by multi-national reform, legal uncertainty could make a financial crisis worse

Local solutions are no longer enough. The collapse of Barings, the UK-based investment bank, in February underlined that national borders no longer exist as far as financial transactions and market forces are concerned. The solution has to be the modernisation and harmonisation of the world's laws on the ownership, transfer and pledging of

Last year the International Bar Association's capital markets forum decided to appoint an ad hoc committee of international securities lawvers to produce general principles for the future.

The committee, chaired by Mr Randall Guynn, a London-based partner of the New York law firm Davis Polk & Wardwell, has just produced its proposals. As explained in a discussion paper written by Mr Guynn, the committee proposes that existing laws

should be reviewed and amended to reflect modern methods of holding and transferring securities. At the moment. Mr Guynn says, only the securities laws of Belgium, Luxembourg and the Revised Article 8 of the US Uniform Commercial Code

appear to reflect such needs. The problem with most existing laws is that they were written for a time when domestic securities were traded locally. Then, interest in securities was a traceable property right in individual securities and the physical transfer of pieces of

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where interests in securities are

held through a multi-tiered system

of banks and other financial intermediaries, transactions are effected by book-entry and domestic securities are traded internationally. existing laws have become obsolete. According to Mr Guynn, most laws do not allow investors or secured creditors to determine in advance which law will govern their rights and obligations or those of possible adverse claimants. Nor do most laws allow them, once the governing law has been determined, to be certain that they have a dis-

not be attacked by adverse claim-These legal uncertainties and the costs of obtaining some certainty act as a deadweight on local, national and global economies, says

tinct package of rights which can

Mr Guynn. They increase the cost of capital for private and government issuers by reducing the value of securities to investors and secured creditors. They increase the legal cost and other operating costs of issuers, investors and secured creditors. They operate as a significant constraint on the reduction of credit and liquidity exposures.

And they contribute to systemic risk - the risk that when a company or financial intermediary goes bust, it will set off a chain reaction which can cause difficulties at other companies, in other market segments or in the financial system

The risks and costs associated with these obsolete laws have been magnified in recent years because

In the age of paperless trading, existing securities laws have become obsolete

of the rapid growth in the value and volume of local and international transactions. For example, the annual volume of Eurobonds and domestic securities settled through Euroclear and Cedel, the two international central securities depositories, has grown from about \$5,000bn in 1987 to \$30,000hn in 1994. The volume of transactions in US government securities settled through Fedwire, the central US securities depository, together with transac-tions settled solely on the books of the main US clearing banks is close to \$1,000bn a day. And the volume

of foreign exchange transactions

and other spot market, options, futures, forward and swaps, contracts is several thousand billion dollars a day.

The need to address these obsolete laws is urgent. The committee's solution is to create some certainty by changing national laws to encompass four basic principles.

The first is to create a new type of interest in securities. This would be an interest in a pool rather than in specific securities, on a pro-rata basis. The pool would be held by an termediary and investors would have an account with that financial institution, creating a direct contractual relationship.

The relationship would not entitle the account holder to the return of any specific securities. They would only entitle the holder to the return of an equivalent amount and type of

Any claims by a third party could only be made against the institution with which the investor has the

contractual relationship.

Because the intermediary does not own the securities in the pool, any claims by third parties would be different from a straightforward contractual claim against it. Unlike money deposits, where only a fraction is held as reserves, the intermediary would be required to maintain a sufficient pool of deposited securities or interests in securities to satisfy the interests of all interest holders, Mr Guynn says.

The second principle is that the pool held by an intermediary to satisfy the interests of all interest holders should be protected against the intermediary's other creditors. This may require a change in existing

insolvency laws, Mr Guynn says.

The third principle - the conflict of laws - is the most important. says Mr Guynn, This determines which laws should govern the transaction where there is a conflict between two or more jurisdictions. This should establish that the governing law of any securities transaction should be determined by agreement between the parties involved.

Failing agreement, or if the agree ment is not binding on third parties, the governing law should be the law of the country where the account with the intermediary is held, or the intermediary's home jurisdiction.

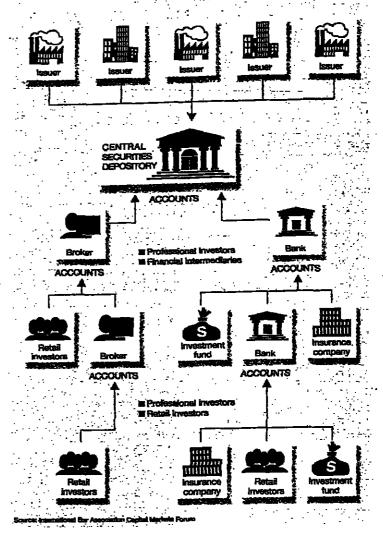
"The conflict of laws recommendation is clearly the most important of the four, and the one needing the most urgent attention," says Mr Guynn.

The fourth principle is that proce dures for pledging securities as col-lateral to raise funds should be sim-

The next stage is to persuade other countries to follow the lead set by Belgium, Luxembourg and the US in making such changes. Depending on how its proposals are received, the committee should then be in a position to approach the Bank for International Settlements and ask for its endorsement.

The final step would be to seek the support of central banking authorities for the necessary legal changes. With their support the crucial task of harmonising the world's securities holding and transfer laws

How the system works now



### Regulations on tied loan subsidies ruled unlawful



National rules which tie the granting of interest rate subsidies on building loans to money lent by banks or other credit institutions established in that member state, are unlawful, the European Court

of Justice ruled recently. The case arose out of a refusal by the Luxembourg housing minister to grant two Luxembourg residents an interest rate subsidy on a building loan taken out with a financial institution in Belgium. The refusal was based on a domestic rule which limited such subsidies to persons who had taken out loans with Luxembourg institutions.

The two people challenged the minister's refusal as contrary to the Treaty of Rome rules on free movement of capital and the issue was referred to the European Court for a preliminary ruling.

The Court noted that restrictions on the movement of capital within the EU were abolished for people resident in the EU by a 1988 Council Directive and the building loan was covered by that directive. The question for the Court therefore was whether the Luxembourg rules were an obstacle to the free movement of capital. The ECJ said that provisions implying a bank must be established in a member state for resident borrowers to obtain an interest rate subsidy out of public funds were liable to dissuade residents from approaching banks established in other member states and therefore they constituted an obsta-

cle to the free movement of capital. The Court also said that as building loans provided by banks consti-tuted services within the meaning of the Treaty of Rome, it was also necessary to determine whether provisions such as those in force in Luxembourg were compatible with the treaty provisions on the free-

First it held that rules such as those operating in Luxembourg, constituted discrimination against credit institutions established in other member states contrary to the treaty provisions on the free dom to provide services. However, those treaty provisions did allow for restrictions to be justified on certain grounds which included public policy.

The Luxembourg government supported by Greece, argued that the relevant domestic rules constituted part of the country's social policy, any change to which would

have considerable economic and financial repercussions.

The subsidies in question constituted nearly I per cent of Luxem-bourg's total budget but nearly half of the sum in question was recovered by the Luxembourg government by means of a profit tax on financial institutions in Luxembourg, enabling the recovered money to be spent on a social pol-icy favourable to housing.

The Luxembourg government further argued that the absence of the contested rules would endanger its housing policy, as banks in other states could not be subject to a Luxembourg profit tax and there-

fore the government would not be able to recover its subsidies.

The ECJ did not accept that argument. It said that the domestic provisions in question entailed discrimination based on the place of establishment of the financial institution. Such discrimination could only be justified under the Treaty of Rome on grounds of, among others, public policy, which did not include economic aims.

Although the Court had previ-ously held that rules liable to restrict the freedom to provide services could be justified by the need to maintain the integrity of the national tax regime, that was not

relevant to the present case as there was no direct link between the grant of the interest rate subsidy to borrowers and its financing by means of a profit tax on financial establishments.

The Court therefore found the national provisions to be incompatible with the treaty rules on the freedom to provide services and the free movement of capital.

C-484/93: Svensson and Gussson v Ministère du Logement et de l'Urbanisme, ECJ FC, November

BRICK COURT CHAMBERS.

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for the sale of the varie, of the company described below, which are being sold as a single entity. BRIEF INFORMATION

The company was founded in 1993 and was in operation until 1993, his activities included the production, processing, marketing and exportation of textiles and fibres. On 26.3,1991 the "Company" was placed under liquidation, according to the provisions of L. 1892/1990. VANS OFFERED FOR SALE

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ted parties may obtain the Officing Memorabdum to respect of the Company and its asset TERMS AND CONDITIONS OF THE AUCTION

The Assertion shall take place in accordance with the provisions of article 46a of Law 1892/1990 (as supplemented by article 14 of Law 2009/11 and subsequently attended), the terms and conditions set to the best in and the "Ferror and Conditions of Sale" contained in the Offering Memorandian Such provisions and other terms and conditions shall apply to of whether they are measured better or not. Substatution of himbate offers shall

Runding Offers, Interested parties are hereby unvited to submit bushing offers, not later than Tires-las, December 12th 1995; 12.00 hours to the Notary Public Mrs. Islamin Gas-roti-Amagnostalaka, Falson St. 18, Ashem 106 78, Tel. +30-1-36,19,728, Faz. +30-1-36,25 [9] Offers should expressly state the offered price and the detailed territs of payment (to cash o installments, mentioning the number of installments, the dated thereot and the proposed annual enterty are, of insy's his the event of the speciallying, in the way of payment, his whether the credited annuant shall bear interest and c) the interest rate then it shall respectively be deemed that: a) the offered price is payable upon execution of the vale contract, b) the so shall bear no meters and c) the stierest rate shall be the legal rate in force from time to time. It all cases where the credited amount bears interest, this shall be calculated in relation to the all cases where the exequited anomaly texts matrices, thus what we calculated in resultance in terms of a constituting amount and shall be possible on the dates of payment of carts multimate. Bending editors substituted later than the above date shall mether be accepted not considered. The offer shall be bending out it has adjudantion. Substitution of offers in favour of a third party in the requirement at a later stage shall be accepted under the conditions that express mention is made to their respect upon their party for the complainnes of the obligations deriving from the sales.

Letter of Fuzzantee: Bushing offers usual be accompanied by a Letter of Guarantee issued on accombance with the sample Letter of Fuzzantee contained in the Offering Menorandum, by a Pank legally operating in Greece, to remain valid until the adjustication. Teh attents of the Letter of Fuzzantee usual be DRS\_FIVE\_HINDRED THOUSAND ISHINDAL Letters of Guarantee shall be returned after the salph

uona: Bandeng offers together with the Letters of Guarantee shall be subm

Envelopes containing the binding offers shall be unscaled by the above mentioned Notary Public in her office, on Tuesday, December 12th, 1995, 14 till hours, Any party having duly softmined a binding offer shall be critified to attend not sign the deed attenting the translating of the binding offers.

As bighest behier shall be considered the participant, whose other will be judged by creditors representing over \$11° of the claims against the Company (the "Creditors"), upon recommendation by the Legislator, to be in the best unterests of all the creditors of the Company. For the purposes of evaluation, an offer to be paid in standards shall be assessed on the basses of its present value to be calculated by employing a 10°c annual discount interest.

The Lipselators whall given written notice to the highest halder to uppear on the date and place incubrance therein and executes the contract of sale to accordance with the terina contracted in the braining offer and/or any other improved terms which may be suggested by the Creditors and agreed upon, in the event of the highest hidder not consplying with such obligation, the Lewes of Gaucannec whall be forfested as a pensity Adjudication while be deemed to take effect upon execution of the contract of sale.

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The Laquators and the Credson shall have to hability not obligation whatsoever towards the participants in relation to the evaluation of the offers or the appointment of the highest bakket participants in relation to the evaluation of the others or the approximation or in the control of any decisions in repeat or cancel the Austrian or and decision which have no habitity for an interpretability of the Austrian. The Liquidian or the Creditors shall have no habitity for an hegal or actual defects of the ansets. Submassion of braking offers shall not cream any right for the cancel of the ansets submassion of braking offers shall not cream any right for the cancel of the ansets submassion of braking offers shall not cream from this Call the adjudication not the participants shall acquire only right, power or claim from this Call and/or their participation in the Anction against the Laguagner and/or the Creditors for any

of This Call has been drafted in Greek and translated into English, in any event, the Greek

in order to option a copy of the Offering Memorandam and any tenther information please contact the Liquidator "Ethniki Kephaleou S.A. Administration of Assets and Liabilities", 92. Chrysotophiousus St. Athens (1996). Greece, Tel. +36-1-373,16-54-7, fox.2 +30-1-321,79 05

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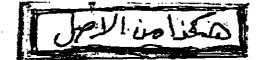
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he common belief is that Purcell died of catching cold one night after being locked out by his wife when he came home drunk from a tavern called "The Hole in the Wall". More prosaic theories are that he had influenza or tuberculosis. Whatever the cause, he died on November 21 1695. He was 36 and at the beight of his

Same to high

There is no question that 17th-century England knew the loss it had suffered. A London newspaper. The Flying Post. announced that "Mr Henry Pursel, one of the most Celebrated Masters of the Science of Musick in the Kingdom and scarce inferior to any in Europe" was to be buried in Westminster Abbey. The resting-place was a fitting one. As a boy, Purcell had sung in the Abbey choir, in 1679 he rose to the position of organist and went on to compose for the Abbey some of his greatest music.

### In praise of Mr Purcell, 300 years on

His reputation has risen more in the last 25 years that in the previous 250, writes Richard Fairman

There was only one possible venue for tonight's commemorative event. Westminster Abbey will mark the 300th anniversary of the death of its most famous musical son with a concert featuring Purcell in the company of 20th-century British composers BBC2 television and BBC Radio 8, which has provided such inspired leadership throughout the year, are joining in a simultaneous live

It comes as the culmination of an astonishing programme of events nationwide. In Britain, not even the Mozart bicentenary in 1991 caused a greater stir. There have been several televised events, mini-festivals and countless

lasting achievement being the complete series of the odes and the sacred music on disc from that adventurous record company,

Purcell's reputation must have risen more in the last 25 years than in the previous 250. Pause for a moment and think back to 1970. Apart from the ever popular Dido and Aeneus and some of the church anthems, what Purcell did we hear? Few performers trusted his popularity enough to put his music in their programmes. Even Britten, a great Purcell admirer, made his own arrangement of The Fairy Queen before he recorded it.

Now the early music upheaval has turned the world upside down. As one record company executive

remarked, "We can sell any British music oversess these days", adding with a smile, "as long as it was written before 1750". While our symphony orchestras struggle to find profitable work, anybody wanting a period instrument ensemble has to book musicians two or three years in advance to be sure of getting the best

The Barbican had clearly planned early for its Purcell festival, entitled "Behind the masque", at the weekend. Christopher Hogwood was the artistic director, bringing with him the Academy of Ancient Music and inviting Harry Christophers and The Sixteen for the middle evening on Saturday. Although there were smaller events

investigating everything from the trio sonatas to the church music, the principal attraction was three of the major stage works.

Probably the most important thing to have come out of this year is the opportunity to judge these semi-operas live, often being performed with their original plays. A lavish full staging, like the Royal Opera's *King Arthur*, has to be first choice, as it is the closest to the 17th-century entertainment. Trying to save money by reducing the drama to a mime or dance has been shown to be a mistake. Better to forget the creaky old plays altogether and leave the music to

Hogwood's performance of The Indian Queen on Friday chose to

replace Dryden's play with a spoken monologue. Unfortunately, the talking went on too long and interest flagged. Last year's production by the Scottish Early Music Consort, which included the (admittedly laughable) play, showed how the drama creates its own tension. Although Hogwood's instrumentalists and singers performed well enough, they were hampered by being placed at the

music is not big enough in scale for Harry Christophers and The Sixteen managed better on Saturday with The Fairy Queen Once again there was a spoken

synopsis, somewhat shorter,

allow dancers at the front. The

back of the Barbican stage so as to

though jokily adolescent. They gained because the musicians this time were placed at the front of the stage, where they could make an

impact.
Michael Chance and Richard Suart in particular put across their roles with authentic Restoration gusto. Christophers conducted in a consciously expressive manner that felt too modern; Hogwood settled for elegant dance rhythms and less depth.

There were full houses every night, as there surely will be at Westminster Abbey, too. For the coronation of William and Mary in 1689, the resourceful Purcell sold seats for the organ loft and made a profit of £500 (though he was a made to repay it later to the authorities). Will tonight's organist at the Abbey be looking to match bis mitiative?

The Fairy Queen was sponsored by McKenna and Co. and the John Ellerman Foundation.

### Totemic images

William Packer admires the work of William Turnbull

Paolozzi and Anthony Caro, with whom he is, at 73, more or less coeval William Turnbull is the third British sculptor of his generation with proper international standing.

The story is told that, at some time in the late 1960s, Turnbull was carrying two girders, painted a single colour, along a corridor at the Central School, where he was teaching. "Is it finished then?" asked a passing painter-colleague, whereupon Turnbull delivered a serious lesson on the subject for 20 minutes. And indeed it was finished. For Turnbull in the 1960s and early '70s went through a period of full commitment to the reductive principles of minimalism, both as painter and sculptor to which the paintings on show at the Serpentine still bear deceptive witness, Minimalism was indeed of great importance in his development as an artist, but it was a passage from which he emerged.

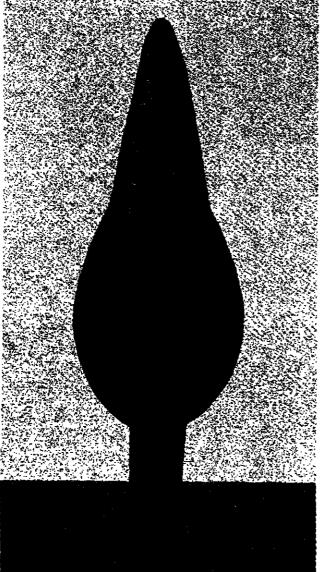
This, Turnbull's first major show in a public gallery since his Tate retrospective of 1973, is no simple chronology. Rather it is a highly selective critical study by David Sylves-ter, who has fixed upon two periods in the sculpture - 1954 to 1962, and from 1986 to the present - and paintings at intervals from the late 1950s to the 1990s, to make obvious what was always true, that Turnbull ou fond has been a figurative artist all along. It happens to make most wonderful sense, and sense of most hauntingly beautiful and phys-

ical a kind. After serving in the RAF during the war, Turnbull went to the Slade, where his fellow Scotsman, Eduardo Paolozzi was already a student and soon a friend. Like him, Turnbull went to live in Paris in the later 1940s. Who is to say whether their voluntary exile was the deliberate distancing of young artists from what might have seemed then the isolated and stifling Englishness of Henry Moore and Bar-bara Hepworth? Or was it simply their seduction by Paris herself, newly-liberated and, for a while yet, still the heart and centre of the artist's

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STABLISHED OLE GOLF CIV

world? Certainly there was always manifest in their work a cosmopolitan quality that set them apart, even from their own generation. Both soon



'Idol', bronze, 1988, at the Serpentine Gallery

formed close and direct links with surviving surrealism, but while Paolozzi turned towards something more active in the statement - the sculpture of Picasso for example - Turnbull found himself looking to calmer and more ambiguous influences, and to the example of Giacometti in particular,

whom he knew. Giacometti indeed supplies the early clue, not so much by his imagery as such, as by the attenuated simplicity of his heads and figures. Here were mere pinched lumps and sticks of clay, that were yet full of life and of monumental form and presence. It showed how little spirit, the suggestion, the reality of the image.

Turnbull had moved to an assured maturity in his work with remarkable speed, and certainly long before 1954, Sylvester's starting-point. The next seven or eight years were to see the production of an extended series of totemic images, lumpen elements of bronze, wood or stone piled into columns or teetering across each other in precarious balance, arms as it were outstretched. It is a curious cocktail of Hepworth and Brancusi, yet quite distinct. For, no matter how abstracted it might be,

integral and instinct, rather than applied by association. The jump across more than 20 years to the latest phase in the sculpture marks the reemergence of this same integral and essential figuration. after a long interval of pure abstraction. The reference now somewhat different and, if anything, more specific. The form is spread and shallow. shield or spade-like yet with a hint of the scale and profile of the figure, and carrying deli-

cate graphic scorings, neither

description nor decoration but

something in between. It remains for the paintings to make the paradoxical point that the simplest, most minimal and monochromatic of statements may carry the richest inferences of humane gement. In the context of the minimalist sculpture, they seemed more conventional than personal, but here, beside the more intuitive and openly referential sculpture, early and late, they have never made more sense. The work comes together, all of a piece, and the artist comes back to himself. Turnbull is an intuitive and a romantic after all.

In his introductory essay Sylvester introduces "hieratic" as a descriptive, insisting on its true and particular sense of the priestly, extending to sacred persons or functions. Turnbull's work indeed has always had to it the quality of . the mysterious, the celebratory or ritualistic. One thinks of the megalith in the field, the totem, the tutelary deity, household gods. Svivester cites. variously as touchstones such things as pre-historic figurines, Egyptian and Cycladic votive carvings, and tribal masks and figures from West Africa, I think of the slender standingstone, 20 feet high, that I saw in County Mayo this summer, with two vestigial Celtic crosses carved at its base, as it were to appropriate and humanise that ancient pagan presence. With Turnbull too, with his scratchings and incisions that may be a breast or head or merely a mark made in passing, the figuration, the

William Turnbull - bronze idols & untitled paintings: the Serpentine Gallery, London W2, until January 7; sponsored by Tag Hener with the Evening Standard and the Henry Moore Foundation.

humanity, lies in just such

marginal acts of possession.



The Fab Four: the sense of fun and creative tension in their early recording sessions is palpable Cometa Press

### The Beatles: works in progress

Is this latest album hype or pop history? **Peter Aspden** reports

Beatles' first new song for 25 years were caught in two minds yesterday: whether to try and re-create the old magic with a Cavern-esque backdrop of drum kits and old clippings, or to rely on the powder-blue rococo splendour of the Savoy's Lancaster Room. In the end, they mixed and matched without too many concessions to taste. A journalist asked tentatively if John Lennon would have approved of the proceedings. Approved? The scene looked like a lyric from "I Am The Walrus".

Is the release of "Free As a Bird" and the first volume of The Beatles Anthology anything more than the most supreme example of pop music hype, or does it offer genuine insights into the group's recorded legacy? The single itself supports the former view: a plodding, dull account of a song Lennon recorded in demo form in 1977. The only magic around is in the technological achievement of marrying Lennon's weedy vocal to the Fab Three's uncharacteristically turgid backing. Paul McCartney has rarely provided a more unimaginative bass line, almost as if he is afraid to steal his old chum's limelight. It was never like this in the golden years. when their rivalry pushed them to extraordinary creative heights. As for the rest of the album, at least half

1958 Quarry Men recordings; the rehearsals from McCartney's home in Liverpool; the 1961 recordings of "My Bonnie" (with Tony Sheridan) and "Ain't She Sweet": there are no hints of greatness to come here, just a couple of mildly intriguing touches of Beatlish humour. Then there are those famous Decca audi-

tion tapes, which led to the label turning the band down and living with the resultant stigma for the next 40 years. Many would surely have agreed with their decision. There is some tight playing, but the Lennon/McCartney numbers, "Like Dreamers Do" and "Hello Little Girl", are derivative and undistinguished.

The first sit-up-and-listen moment comes from a Stockholm concert from October 1963: a driving, almost arrogant version of "I Saw Her Standing There", a dirty, rau-cous "Money" and an exuberant "Roll Over Beethoven". Here is the band that knows it is going somewhere.

By the time the boys came back to Britain and the Royal Variety Show, their self-confidence was overwhelming, not only in the form of Lennon's caustic asides but also musically: the complex harmonies of "She Loves You" are achieved with a minimum of distress.

The most interesting parts of Anthology are the works-in-progress tracks: snippets

rganisers of the launch of the is strictly for the pop archaeologists. The of out-takes, rejected versions and early experiments of songs which would become classics. The sense of fun and creative tension brought to those early recording sessions are palpable. Every time a take is interrupted, McCartney nervously runs up and down his bass or Lennon makes a oke. Between consecutive takes of "I'll Be Back", the song's tempo is altered from waltz time to 4/4; several beginnings are tried and discarded on "Eight Days A Week". Here are glimpses of the group's legendary improvisatory abilities, which make the brilliance of their best work a little easier to appreciate.

Providing the final polish, of course, was the Beatles' producer George Martin, who, on the evidence provided here, always chose the right version of a song for release. Yesterday he was in typically generous mood, hailing the Jeff Lynne-pro-duced "Free As a Bird" as a "great record and super song" - it is neither - and underplaying his role in general.

Anthology I ends with McCartney's rol-licking vocal on "Kansas City/Hey-Hey-Hey-Hey from late 1964. The Beatles asphenomenon had been firmly established, but The Beatles as supremely gifted songwriters were only just getting into their stride. Expect more interest - and a lot more hype - from Volumes Two and Three, released next year.

# INTERNATIONAL

#### **AMSTERDAM**

CONCERT Concertpebouw Tel: 31-20-5730573 Radio Filharmonisch Orkest: with conductor Sakari Oramo and violinist laabelle van Keulen perform Sibelius' "Lemminkainen", Dutilleux's "L'arbre des songes" and Saeriaho's "Du crystal..."; 3pm; Nov 25

#### **BARCELONA** JAZZ & BLUES

Peisu de la Música Catalana Tel: 34-3-3171096 Phil Woods and the Cedar Walton Quartet: perform music by Charlie Parker. Featuring the Ramon Diaz Group. Part of the 27th Barcelona International Jazz Festival; 9.30pm; Nov 23

**■ BERGEN** CONCERT

Grieghallen Tel: 47-55-216150 Bergen Filharmoniske Orkester: with conductor Antoni Ros Marba and violinist Dmitry Sitkovetsky

perform works by Bibalo, Prokofiev and Beethoven; 7.30pm; Nov 23

**BERLIN** CONCERT Konzerthaus Tel: 49-30-203092100/01

 Berliner Singakademie: with conductor Achim Zimmermann, planists Sigurd Brauns and Klaus Kirbach, mezzo-soprano Annette Jahns and baritone Egbert Junghanns perform Eisler's "Die Mutter", Schoenberg's "Friede auf Erden" and a selection of Brahms' "Liebeslieder-Watzer" and "Neue Liebeslieder-Walzer"; 8pm; Nov 22

#### ■ COLOGNE

**OPERA & OPERETTA** Opernhaus Tel: 49-221-2218240 Die Zauberflöte: by Mozart. Conducted by Georg Fischer and performed by the Oper Köln. Soloists include Franz-Josef Selig, Rainer Trost, Amanda Halgrimson and Nina Stemme; 7.30pm; Nov 23,

THEATRE Schauspielhaus & West-end-Theater Tel: 49-221-2218400

 Die Jungfrau von Orleans: by Schiller. Directed by Torsten Fischer. With Jacqueline Kommüller, Sophia von Kessel, Birgit Walter and others: 7,30pm; Nov 24, 25, 26 (3pm)

DRESDEN OPERA & OPERETTA

Sächsische Staatsoper Dresden Tel: 49-351-49110 Die Zauberflöte: by Mozart. Conducted by Siegfried Kurz and performed by the Sächsische Staatsoper Dresden, Soloists Include Rainer Büsching and Roxana Incontrera: 7pm: Nov 23

#### **■ FRANKFURT** CONCERT

Alte Oper Tet: 49-69-1340400 Ensemble Modern: perform works by Lachenmann, Scelsi, Rihm and Murall; 8pm; Nov 22

### ■ HELSINKI

CONCERT Finlandis-talo - Finlandia Hall Tet: 358-0-40241 Radio Symphony Orchestra: with conductor Hiroshi Wagasuki and pianist Christian Zacharias perform works by Mozart and Bruckner: 7.30cm: Nov 22 DANCE

Opera House Tel: 358-0-403021 Don Quixote: by Minkus, in a choreography by Bart/Petipa. Performed by the Finnish National Ballet; 7pm; Nov 22, 25, 28

#### ■ LONDON AUCTION

Bonhams Chelses Tel: 44-171-3933900 ● The Lady Sylvia Harlech Memorial Collection of Toys: a private American collection of over 500 ram and unusual toys, including a model of the Capitol Building, Washington, containing a roll-call of presidents' names, German and French tin toys, optical and mechanical toys, conjuring and magic tricks, Bliss dolls' houses, Victorian puzzies, games and books; Barbican Hall Tel: 44-171-6388891 London Symphony Orchestra: with conductor Mstislav Rostropovich and cellist Han-na

Chang, winner of the International Rostropovich Competition in Paris in 1994 at the age of 11, perform Tchalkovsky's "Suite No.4 in G" and "Rococo Variations", and Shostakovich's "Symphony No.10";

Tel: 44-171-9604242 The London Philharmonic: with conductor Franz Welser-Möst, planist Jean-Yves Thibaudet and Cynthia Millar on ondes Martenot

Royal Festival Hall

perform Messiaen's Turangailla-Symphony"; 7.30pm; Nov 22 Wigmore Hall Tel: 44-171-9352141

 Benjamin Britten Birthday Concert: tenor Anthony Rolfe Johnson and planist Graham Johnson perform Britten's "7 Sonnets of Michelangelo\* and "6 Hölderlin Fragments", and R. Schumann's "Dichterliebe"; 8pm; Nov 22

Jacques Delacôte, directed by Lina

Wertmüller and performed by the

THEATRE Cottesioe Theatre Tel: 44-171-9282252

Nationaltheater

PRAGUE OPERA & OPERETTA Skylight by Hare. Directed by **National Theatre** Richard Eyre, With Daniel Betts, Tel: 42-2-24912673 Michael Gambon and Lia Williams; Eugene Onegin: by Tchalkovsky. 7.30pm; Nov 23, 24, 25 (also Conducted by J. Stich and performed by the National Opera 2.30pm) Prague; 7pm; Nov 22

MUNICH **OPERA & OPERETTA** CONCERT Tel: 49-89-21851920 Carmen: by Bizet. Conducted by

STOCKHOLM Konserthuset Tel: 46-8-212520 Filharmonikema: with conductor

Eri Klas and cellist Mats Rondin

perform Part's "Symphony No.1",

Bayerische Staatsoper. Soloists

include Frances Lucey, Silvia Fichtl, Elena Zaremba, Angela-Maria Blasi,

Mario Malagnini; 7pm; Nov 23, 25

Mahagonny: by Welll. Conducted

by James Levine and performed by the Metropolitan Opera. Soloists

Demesch and Kenneth Riegel; 8pm;

Eugene Onegin: by Tchaikovsky.

Conducted by Alexander Anissimov

National de Paris. Soloists include

and Randi Stene; 7.30pm; Nov 22

Gerlinde Lorenz, Solveig Kringelborn

Metropolitan Opera House Tel: 1-212-362-6000

Include Irene Stratas, Helga

**PARIS** 

**OPERA & OPERETTA** 

Tel; 33-1 44 73 13 99

L'Opéra de Paris Bastille

and performed by the Opéra

Nov 25 (1.30pm), 29; Dec 2, 6

Maurizio Muraro, Martin Gantner and

Symphony No.2", "Symphony No.3", " Cello Concerto" and "Perpetuum mobile". One of the Partfestival performances; 7.30pm;

#### ■ NEW YORK **■ TORONTO** OPERA & OPERETTA

THEATRE O'Keefe Centre for the Performing Arts Tel: 1-416-393-7474 Andre-Philippe Gagnon: one-man show by this Canadian performer, known for his impersonations of pop music stars. The show is a mix of comedy and music featuring more than a 100 voices; 8pm; Nov 22, 23,

#### ■ VIENNA

CONCERT Musikverein Tel: 43-1-5058681 Alfred Brendel: performs Beethoven's sonatas op. 109, 110 and 111; 7.30pm; Nov 23 THEATRE

Burgitheater Tel: 43-1-514442960

Heldenplatz: by Bernhard. Directed by Peymann/Hermann and performed by the Burgtheater. The performance on Nov 26 is a sebration of the seventleth birthday of actress Annemarie Düringer; 7pm; Nov 25, 26 (6pm)

### WASHINGTON

**OPERA & OPERETTA** Opera House Tel: 1-202-416-7800 Luisa Miller: by Verdi. Conducted by Richard Buckley and performed by the Washington Opera, Soloists include Veronica Villarcel, Jane Gilbert, Lando Bartolini, Haijing Fu, Gabor Andrasy and Kevin Langan; 7pm; Nov 25

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Europa: Dominique Moïsi

### Lessons from Asia

Hong Kong and its regional neighbours can teach a great deal – in both a positive and a negative sense – to Europe

A hundred years ago Asia and Japan in particular - conprosperous ports in the world, the logical comparison is with stituted one of two things in European eyes: it was either a historical merchant city states sphere in which to extend such as Venice. Bruges and Europe's economic penetra-tion and political influence; or Hamburg. But at the height of their powers, Venice and Bruges had Carpaccio, Tiepolo it was a source of exotic inspiration for European painters and Memling. Hong Kong has and poets. Europe, meanwhile, was perceived by Asians as a large shopping mails full of European. US and Japanese gateway to modernity, a model of technological, milidepartment stores, which leave those who have to cross tary and bureaucratic effithem when using the city's complex covered sidewalks In recent years a complete with a sense of metaphysical

change in attitudes has taken fatigue and latent terror. place. Europeans, unsure of Could our own future be themselves and apprehensive like Hong Kong's? So much about their future, are energy and dedication, finanstarting to ask what they can cial and commercial activity, and round-the-clock construclearn from Asia - not only in purely economic terms, but tion work devoted to purely also in the area of social valmaterial ends, devoid of hisues. In other words, Asia is no longer perceived solely as an tory and spirituality. Circling Hong Kong and the New Territories by helicopter, irresistible competitor and an

ever-expanding market. This focus on "easternisation" has become, for many dedicated Eurosceptics, a fashionable way of denouncing state dirigisme, inefficiency and bankrupt social security

For Asians going about their day-to-day lives, meanwhile. Europe is most often associated with elegant consumer products.

After a two-week visit to Hong Kong, I have the impression that Europe has much to learn from the territory in both a positive and a negative sense. I was struck, for example, by Hong Kong's tremendous energy, pride and orientation towards the future. But equally I could not help noticing the cultural and spiritual emptiness of its message. Can man live by work alone?

While it may appear to be an Asian New York, Hong Kong lacks the Big Apple's existential intensity and cultural dynamism. Serious book stores are hard to find and, when one does come across them, their shelves are full of management manuals and books on interior decorating

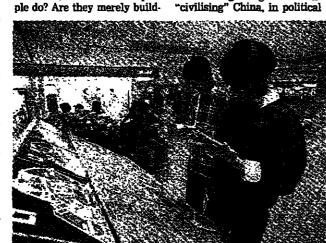
When contemplating what

is one of the most active and ing for building's sake? and economic terms, while prosperous ports in the world, Of course, there is much remaining a place of freedom the logical comparison is with more to Hong Kong than cultural emptiness. The vitality emerging from the island is based on constant work, social cohesion, a business-friendly, modest and honest state and with the July 1 1997 deadline for the handover to China rapidly approaching - a galvanising sense of "dancing on the volcano". If many citizens of Hong

Kong crave a second passport and resident status elsewhere, many more seem ready to con-front the Chinese "devil" with a remarkable sense of historical relativism and courage. This is no mean feat, given China's combination of communist mediocrity, totalitarianism and ingrained corrup-

Citizens of Hong Kong seem caught between contradictory seeing at close range the emotions. They take pride in mushrooming new cities of their achievements but also in China's Guangdong province, their Chinese cultural idenwas struck by the incredible tity. And there is no love lost between them and their British former colonial masters. animal-like energy exuding from new cities such as Shenzhen and from Hong Kong's They are aware both of the airport project, with its artificiality and fragility of bridges, tunnels and railway links. Yet I was left with one what they have achieved and of the stark contrast between China's historical greatness big question: after completing the construction of these new and the mediocrity of its prescities and their transportation networks, what will the peo-

Can Hong Kong succeed in "civilising" China, in political



Centres of emptiness: Hong Kong's large shopping nales. He writes here in a per-plazas can fill visitors with latent terror Police Tony Andrews sonal capacity

Pfizer forum | Polish Economic Growth: Deregulation is the Key.

! BY MAREK MATRASZEK

model and source of inspiration for the rest of China? Or will China's leaders unintentionally kill the goose which lays the golden egg - a goose they were so keen to see thrive?

The "yacht people" - the richest and most westernised Hong Kongers - may be leav-ing the city for other shores. particularly Canada and Australia. But the poor's only choice is to stay. Meanwhile, the bulk of the middle classes have decided their best option is to give the Chinese the benefit of the doubt.

What Europeans can get from Hong Kong is a sense that they can prevail against the odds if they confront the future with energy, dedication and pragmatism. In short, they can learn to act like mas ters of their own destiny.

But we should also consider the more immediate and practical question of what Europe can do for Hong Kong in order to prolong its open and dynamic identity after 1997. The answer is simple: Europe should make the territory an important focus of its attention, and it should keep up the pressure on China by stressing that its behaviour towards Hong Kong will be one of the criteria on which it will be

Europe must also emphasise that an open, honest society is good for business, and not the reverse. Europe should above all maintain a united front against the divisive tactics of the Chinese, who seek to play national commercial interests off against one another. If it succeeds in doing this, it will be proof that Europe has indeed learnt to follow Hong Kong's example by acting with pragmatism, determination and an eye to the future.

The author is deputy director of Paris-based Institut Français des Relations Internatio-

### LETTERS TO THE EDITOR.

Number One Southwark Bridge, London SE1 9HI.

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### Trade achievement is in reality tripled deficits

From Mr Charles McMillion. Sir. Even by today's political standards, Jeffrey Garten shows remarkable cheek in his Personal View of November 14. Leaving his 30-month post as the Commerce Department's under-secretary for international trade, he claims that "trade had become one of President Bill Clinton's most

impressive achievements". But during his short involvement in US trade policy, the current account deficits have almost tripled to \$180bn this year - all of it attributable to manufacturing

world record losses of about

This amount is even greater than the federal budget deficit which has caused such concern and which threatens to eliminate Mr Garten's Commerce Department

The exchange value of the US dollar has languished at or near historic lows against the other leading currencies. Unique among the G7, even in a business cycle recovery, US

wages and benefits have continued to fall as good jobs are lost to imports and replaced by lower-wage. lower-skill (non-traded) service

US relations with China, Japan and Europe have deteriorated badly in the past 30 months as inconsistency has become the only hallmark of an ad-hoc, crisis driven morass of trade policies. Mexico has een transformed by an ill-conceived trade agreement, from a nation of slow but

steady economic and political progress to a nation in very deep crisis.

And the state of t

budget

We can only hope that Mr Garten's book-keeping and sense of accountability are better in his new academic role than they have been during his stay in Washington.

Charles W. McMillion. president and chief economist, MBG Information Services, 223 F Street NE, Washington DC 20002-4928.

#### Where the buck really does end

From Dr. Elaine Sternberg. Sir, It is refreshing to see John Kay recommend accountability ("Sharing responsibility is to pass the buck", November 17) instead of doctrines that undermine it notably stakeholder theory and the "customer corporation". Unfortunately, Kay's understanding of accountability is flawed by his overwhelming concern for managerial independence.

Kay is right that much of what passes for accountability in the UK public sector is seriously counter-productive. and that "Constructive ecountability gives people freedom to make decisions but holds them fully responsible for the consequences". It is not true, however, that "The central distinction is between making people accountable for their individual actions and making them accountable for the overall result". Accountability for achieving ends properly includes accountability for the means

used in doing so. Equally, the fact that owner approval of business plans decreases agents responsibility is not a sufficient argument against approval mechanisms

Accountability is not an end in itself: its objective is to ensure that agents pursue their principals' objectives. When delegated responsibility fails to further achievement of those ends, it is rightly reduced.

What Kay overlooks is that, as I argue in Just Business: Business Ethics in Action (Little, Brown; 1994), accountability requires clear objectives as well as clear lines of responsibility. Ministerial advice on means is pernicious not just because it obscures who is in charge, but because it typically introduces additional, often incompatible,

Elaine Sternberg. principal consultant, Analytical Solutions, 18 Tamar House.

Tom Burns on

the gains made

by the Spanish

unday's regional elec-tion in Catalonia, the

corner of Spain, delivered two political lessons - one

for Spain as a whole and

The first message is that Mr

José Maria Aznar, leader of the

Partido Popular (PP), Spain's

conservative opposition, has

taken a big step forward on the path to replace Socialist prime

minister Mr Felipe González.

After more than doubling the PP vote in Catalonia, Mr Aznar

looks all but unstoppable in

the general elections which Mr

González savs will be in March.

Catalan nationalism, as repre-

sented by Mr Jordi Puiol's Con-

vergència i Unió (CiU) coali-

tion, has suffered an important

setback. Mr Pujol, who until recently supported Mr Gonz-

alez's minority government in

the Madrid parliament, now

finds himself in the same posi-

tion as his erstwhile ally: CiU

has lost its majority in the Bar-

Ever since the PP defeated

the Socialists in European elec-

tions last year and won again

in municipal elections in

March this year, Mr Aznar has

claimed that a new page is

being turned in Spanish poli-

tics. The boast now rings more

true than ever the days look

numbered for Mr González, in

power since 1982; and Mr

Pujol, who has held power for

15 years, has lost his hege-

mony over his home turf.

celona parliament.

The second is that moderate

another for Catalonia.

prosperous north-east

conservatives

in Catalonia

### Losing out by screen-based education the nature of intellectual

From Prof Alex Callinicos. Sir, I long ago gave up regularly reading Michael Prowse's "America" column. Why bother with the thoughts of House Speaker Newt Gingrich second-hand when the original is usually so entertaining? But Prowse's latest effort, where he predicts that universities will be replaced by "just-in-time electronic education, delivered to your living room by commercial companie ("Endangered Species" November 20) is silly even by

his exacting standards. Thus Prowse asserts that "simple tests of cognitive ability can be administered in less than 30 minutes", and that these are "a better guide to job performance than academic

He offers no evidence for these sweeping assertions,

doubtless because there is none. It is plain that Prowse commits the vulgar error of equating "cognitive ability" with the grasp of particular items of information. Yet genuine cognitive ability consists less in specific factual knowledge than in the capacity critically to analyse both data and opinions.

helping students develop this capacity in part because - in the US at least - they teach in small groups where participants are encouraged both to put forward their own ideas and to examine those of others. All this would be lost if Prowse's dream of long-distance "screen-based

Universities are good at

education" became reality. Prowse complains of university education: "We do not know if what we have learnt will be relevant". It is in

progress that it cannot be predicted. This makes a strong case for providing students with the understanding of general principles and the critical skills that allow them to evaluate new developments. Prowse's "learning companies" would produce students whose heads were full of facts but who were unable to assess their significance. No doubt this would make it easier for him to pass on unchallenged the latest outpourings of what are humorously known as the think-tanks of the New Right. But why should anyone else find so dismal a prospect attractive?

Alex Callinicos. professor of politics, University of York, Heslington, York YO1 5DD, UK

### Too many scientists for a shrinking market

From Prof Steve Fuller. Sir, In his explanation of The force behind a dramatic century" (November 18/19), Professor Robert May neglects some salient facts for understanding the role of science in transforming contemporary society.

Despite his general misgivings about the public's understanding of science, May is pleased to report the relatively high percentage of British university students who graduate with science Unfortunately, he fails to

acknowledge that their rate of that of the national rate (according to the Times Higher Education Supplement. December 1994). The reason is that universities have been slow to adapt to the post-cold war era. During the cold war. 30 per cent of science graduates in the UK and US routinely worked in defence-related industries. Now too many scientists are being produced for a shrinking

market The idea that these surplus scientists may work to

increase the UK's economic competitiveness is equally spurious. Here one need only look to the increasing number of third-world matriculants in UK and US university science programmes. These people typically return to their home countries, often to be contracted for specific research projects by transnational corporations stationed in the UK and other first-world countries. Because of lower labour costs in the third world, these graduates are preferred to comparably trained first-world graduates. Consequently, we find places

"Silicon Valley" of India. May is wrong to think that science is insufficiently appreciated by the British public. Rather, policymakers such as he do not appreciate the larger global forces that determine how and why scientific knowledge is produced.

Steve Fuller, professor of sociology and social policy. University of Durham, Durham DH1 3JT, UK

### Other-world currency

From Dr Stephen Castell. Sir, With reference to the continuing correspondence following Giles Keating's Personal View on e-money (November 2), the real point is that true cybercash is very likely to become a currency in its own right - the Ecu, or Electronic Cash Unit, as I have already christened it.

There will be no need for exchangeability of Ecus with 'real" currencies provided one is able to do nothing but cybertrade – that is, as long as 🛦 one can receive all the real goods and services ever desired by ordering them over the wholly in Ecus, transferred to and from balances held entirely in cyberspace NOT in

Once this happens cyberspace will truly become 'another sovereign country", with its own currency, and an economy immune from the predations of taxmen and so forth in the "real" world.

Stephen Castell. 20 Grange Road, Wickham Bishops Witham, Essex CM8 3LT, UK

#### Poland experienced an entrepreneurial boom and significant economic growth in the wake of the deregulatory reforms of the early 1990s. The director of a Warsaw policy group argues

The Polish economy owes its success - over five percent growth in Gross Domestic Product for three straight

that this growth is threatened by a

return to excessive regulation.

years - to deregulation which was implemented in 1989-90. It was then that legislation was enacted which allowed for simple, un-bureaucratic initiation of economic activity by private persons. In January 1990, Deputy Prime Minister Leszek Balcerowicz introduced a packet of reforms which freed most prices, liberalized foreign trade and introduced the internal convertibility of the zloty, which in turn led to increased availability of foreign goods. The speed

of the reform process and the historical importance of the Balcerowicz reforms prompted voluntary sacrifices by special interest groups, which led to unprecedented economic growth. Although, according to official statistics, GDP fell by between 11% to 19%, over one million private small businesses were created.

The deregulation process began to slow and was even halted in the following vears as special interest groups began to exert pressure. Despite the decentralization of government, pressure by large state-owned companies resulted in a return to subsidization and to policies which shielded them from market forces. Under these conditions, the Polish economy is divided into three parts. First, there is the state-owned sector - which is heavily regulated and overburdened with taxes which are for the most part not paid; moreover, its industries do not contribute to their employees' pension costs, creating

an additional burden for other sectors. Next comes the private sector - developing in free market conditions but over-taxed. Finally, there is the gray economy - which accounts for about 20% of GDP.

The last two years have seen an increase in regulation and intervention. Equalization payments were introduced on imported agricultural products, then removed as a result of the ratification of

the WTO agreements, only to be re-

introduced in the form of increased tariff

rates. At the same time, duty free quotas

were introduced on the import of many

products. Whole sectors of the economy

are being isolated from the free market.

Examples include the sugar industry, the

fuel sector, the coal industry, telecommu-

nications, insurance and banking. New

regulations which hamper free enter-

prise range from the new, more restric-

tive building code, to the amended law on

lotteries, the law on the postal service

and the Work Code. Some argue that the

recently passed Law on Commercial-

ization and Privatization of State Owned

Enterprises makes the privatization of

in spite of Puland's economic growth, the

foundations of this growth are beginning

to be fatigued. The best course to regen-

erate them and spark a continuation of

Many exporters are of the belief that

whole sectors more difficult.

economic growth on a long-term basis could be a new wave of deregulation combined with an increase in the tempo of privatization. This should involve:

• the introduction of more disciplined rules concerning the financing of stateowned enterprises and the liquidation of unprofitable entities, as well as reform of the pension plan system.

· the privatization of several sectors which are currently considered as strategic (e.g. telecommunications, fuels, air transport).

· a decrease in tariff rates and liberalization of foreign trade.

 allowing free access of foreign investment in sectors in which it is limited. (e.g. banking and insurance) or inhibited

(e.g. pharmaceuticals). How soon these reforms are introduced will weigh heavily on Poland's future growth. Equally, its willingness to permit foreign companies to compete in the Polish

market may affect its prospects of joining and benefiting from the European Union. Marek Matraszek is the Warsaw director of Grupa Windsor, an informal market-oriented lobbying organization operating throughout Central Europe.

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Out for the count: CIU leader Jordi Pujol faces tough choices

Both CiU, which was defending its record as Catalonia's governing party, and the Socialists – who as the traditional opposition party in the area put themselves forward as the only viable alternative to Mr Pujol - had an interest in keeping Sunday's vote to local issues. It was the PP, with only a token presence in the region, which took the gamble of designating the Catalonia vote

a test of national opinion. The PP's candidates in Catalonia attacked CiU's pork barrel politics and its omnivorous desire to swallow everything that moves in Catalan society, from the media to the Barcelona football club. But mostly they concentrated their fire on the alliance that Mr Pujol established with Mr González after the prime minister was left short of a governing majority in Madrid in the June 1993

general elections. CiU's support for the Socialists brought results, such as ater fiscal discipline and a liberalisation of rigid labour legislation, that ought to glad-

den the heart of conservatives. But in the past year. Mr González's party has been undermined by embezzlement allegations and by a judicial probe into accusations that it sanctioned an undercover war against Basque separatists in the 1980s. Mr Pujol was inevitably tarred with Mr González's brush. When the Catalan leader

broke with the prime minister in the summer, his policy switch was seen by many as too little too late. Mr Pujol ordered CIU to vote against Mr González's draft 1996 budget last month, thereby ensuring its defeat, but refused to back plans by Mr Aznar to move a censure motion against the prime minister that would have precipitated general elections this autumn

What Mr Pujol obtained from Mr González was a formal commitment to dissolve parliament after Spain completes its European Union presidency next month and to stage the general elections in March. This was not enough for conservativeswitched to the PP.

CiU lost 10 seats, returning 60 members to the 135-member Catalan parliament, while the PP won 10 to increase its strength from seven to 17. This tally exceeded Mr Aznar's expectations, for Catalonia had consistently shunned Madridbased conservatives in the area's local elections. It suggests that the PP will be close to an overall majority in general elections.

In the circumstances ever the Catalan Socialists fared better than CiU, losing six seats to bring their strength down to 34, their worst result in the area since 1980. The beneficiaries of the lacklustre Socialist performance were Iniciativa per Catalunya, a coalition of communists and greens which increased its representation from seven seats to 11, and the radical nationalist Esquerra Republicana de Catalunya (ERC), which gained

two more seats for a total of 13. Mr Pujol, 65, who has dedicated his adult life to building up Catalonia's profile and the last 15 to extracting autonomous powers from Madrid for his homeland, now faces tough choices: Does he make over tures to the PP as he formerly did to the Socialists? Or does he eschew involvement with the big Madrid parties and seek an alliance with the nar-

rowly Catalan-based ERC? The second option risks increasing the tension between Spain and Catalonia, but Mr Pulol, shorn of his majority in Barcelona and with the propect of a strong PP government in Madrid, may be forced to return to his Catalan roots. He can no longer play the powerbroker in Spanish politics.

#### **COMMENT & ANALYSIS**

### FINANCIAL TIMES

Number One Southwark Bridge, London SE1 9HL Tel: +44 171-873 3000 Telex; 922186 Fax: +44 171-407 5700 Tuesday November 21 1995

### Clinton wins a budget battle

Washington yesterday. After six days of partial "shutdown", thousands of civil servants were back running the government, and congressional Republicans were back plotting how to downsize

Almost, but not quite. For, after months of confusion, last week's skirmish revealed that Mr Clinton has at last hit on an effective strategy for taking on the Republi-cans over the budget. First, cede the most important principles to your opponents. And second, earn maximum political capital by battling in a principled manner over

of the abilities.

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As far as the first stage is con-cerned, Mr Clinton made the most important concessions during the summer, with his revised budget proposals. These accepted all the most revolutionary elements of the Republicans' proposals, leav-ing Mr Clinton arguing over details rather than principles. He wanted 10, not seven years to balance the budget, fewer cuts on the edges of the welfare system, and smaller, more progressive reduc-tions in health programme spending and "middle class"

The temporary compromise for funding the government until mid-December, hammered out over the weekend, saw Mr Clinton cede ground on timing the White House now accepts the principle of balancing the federal budget over seven years. Yet there is little doubt that the President comes out of the affair rather

First, though Republicans can claim a victory on principle, the deal does not involve Mr Clinton accepting any of their details. He will agree to a more rapid programme of budget cuts, but only if Congress re-jigs the pattern of spending and tax cuts to achieve a fairer distribution of gains and losses. Second, the President has united both his own party and large chunk of the electorate against the Republicans, who he has successfully por-trayed as uncompromising, petty

This puts the Republican leader-ship, particularly Mr Bob Dole, the Senate majority leader, in a trick-ier negotiating position. With the Democrats united, his party will not be able to achieve veto-proof majorities. And, with the public blaming Congress rather than Mr Clinton for last week's gridlock, he must strive to seem a force for

Yet a good many Republicans would rather go down fighting than do anything to help either Mr Dole or Mr Clinton claim victory. Prior to last week, most believed that there would eventually be a budget deal, because all sides had But now they may be seeing the attractions of "taking the battle to the country" in next year's elec-tion, rather than agreeing to a messy compromise. As ever, inves tors should believe in the balanc-

### Lech's legacy

was a product of his time: a brave, in eastern Europe, with export-led stubborn, wily and instinctive leader who symbolised resistance to Soviet-backed Communist rule in his country. When he climbed the gates of the Lenin shipyard in Gdansk in 1980, as the leader of the first successful strike behind the Iron Curtain, his example was an inspiration throughout the day in the Polish presidential election by Mr Aleksander Kwasniewski, a former Communist, undoubtedly symbolises the end of an era. Yet it does not mark the

defeat of what he fought for. In many ways, Mr Walesa was himself to blame for his electoral failure. As president of Poland, he had shown himself both autocratic and erratic. He presided over no fewer than six governments in five years, in large part a result of his having undermined his own Solidarity movement, and caused the splintering of the liberal, anti-Communist forces on the right. The result was the return in 1993 of political parties with their roots in the Communist past. Now Mr

Walesa himself has paid the price. The abiding achievement of the Solidarity movement was not only the destruction of Soviet-backed Communism beginning the wave of revolution which swept away the Soviet empire. The first Solidarity government demonstrated that radical market reforms could replace the sterile state economy with a dynamic private sector.

On the other hand, the political confusion caused by the continu-ing warfare between President Walesa and his governments has delayed the further process of priinvestors. Polish voters have shown their disillusionment by electing Mr Kwasniewski.

It was certainly a genuine democratic decision, although the close government remains committed to

maintaining a market economy. It is now up to the new pres dent and his allies to prove that they can give new impetus to the structural reforms begun, but not completed, under Mr Walesa. That means pushing ahead with changes which cut the cost of the pension and social security system, speeding up privatisation, and fostering further growth of the private sector.

## growth this year running at 6.5 per cent and with a flourishing small business sector. That is no

result does demonstrate that the country is split down the middle. But as the leftwing Trybuna newspaper commented yesterday "Poland has not been cut in half. It has just chosen between two politicians." That may yet prove to be true. Mr Kwasniewski insists he is not a communist, but a social democrat. He will pursue Poland's foreign policy ambitions of joining both the Nato alliance and the European Union. And his

### **BBC** and Diana transmission. As the government's

Last night's interview with the Princess of Wales was a coup for the BBC's Panorama, its current affairs flagship. The UK audience may be the largest ever achieved for a documentary, much of the rest of the world will also see the programme in the next few days. But since the existence of the programme was announced, the BBC has been vigorously challenged about whether it was right to show the programme.

Among UK broadcasters, the BBC has a unique position. Rstablished as a public corporation by Royal Charter, it is funded by a licence fee paid by every household with a television. Its programming must fulfil specified public service obligations.

Some of the recent accusations seem unfair. One complaint – that the BBC should have informed the Queen about the programme makes too much of the "royal" nature of the charter. That document sets out the BBC's obligations to the UK people, not to the Queen. While it might have been courteous to tell the palace, that might also have infringed the conditions on which the interview was granted. A second complaint that the BBC may make a great deal of money from overseas sales - also ignores the government's exhortation for the corporation to

become more commercial. However, two challenges have more substance. Some argue that the beard of governors should have seen the programme before

July 1994 white paper on the future of the BBC put it, the gov-ernors are "trustees" of the BBC's public interest commitment. But such an interventionist role would be an unfortunate departure from the past. The governors - particu-larly those on the present board have rightly avoided such a role, even on issues such as Northern ireland, arguably more contentions than the princess's views of the monarchy and her family. Finally, some suggest that this

kind of "populist" programme is not public service. It seems some what perverse to describe a programme with such an audience as against the "public interest". Nor is the programme likely to herald regular BBC forays into royal reporting, reliant as that is on rumour. If anything, the BBC spends too little time probing constitutional questions. It was, after all, Granada Television's World In Action, not the BBC, which produced the influential 1991 documentary into the royal family's exemption from income tax (which has since been removed). The more valid criticism would be if the BBC reporter falled to ask properly tough questions about his interviewee's contribution to

royal difficulties. The BBC, like the royal family. finds that its role is changing Regrettably, its critics want to use the controversy provoked by that change to block programmes which the public wants to see



### Future forged in the past

Poland's voters no longer believe the former communists will bring back Stalinism, say **Anthony Robinson** and **Christopher Bobinski** 

reflection, the Polish people have freely expressed their will in the second round of the presidential elections on Sunday. Mr Aleksander Kwasniewski, a former minister in Poland's last communist-era government, will next month replace Mr Lech Walesa as president for the next five years as a result of his narrow, three-point

On December 23, the 41-year-old leader of the Democratic Left Alliance (SLD) will move into the white presidential palace next to the refurbished Bristol hotel on Warsaw's main avenue, Krakowskie Przedmiescie. Mr Walesa, the former shipyard electrician whose anti-communist Solidarity movement scuttled the Soviet empire,

will move out. "Lech Walesa, the man who changed the history of Poland and ston Churchill," said Mr Adam Michnik, editor of Gazeta Wyborcza and a former ally of the outgoing president. "He won a war and then lost an election.'

Nothing so replete with symbolic significance has occurred in the former communist states of eastern Europe since the collapse of the Berlin wall in November 1989. It is a development which few could have imagined in the euphoric closing months of that year when commu nist regimes were collapsing week by week.

But much else that has happened in the last six years indicates that the political wheel is far from hav-

ing come full circle.
The Soviet Union has disintegrated. The Red Army - which brought communism to the region in its kitbag in 1944-45 - has departed peacefully. The Comecon trading block and the convertible rouble have sunk without trace.

Privatisation and the rapid growth of a new entrepreneurial class have transformed the former centrally planned economies.

Poland's economy is growing at 6 Soviet tanks crushed the 1956 Budaper cent a year and a new middle class has emerged.

Between 50 per cent and 70 per cent of the region's trade is now with member states of the European Union. Companies from central Europe now trade with their western counterparts using newly convertible currencies.

On the other side of the ledger, most of the region is again governed by politicians who received their training in Moscow and started their careers in the communist parties of their countries.

Poland, the first country to slough off communist rule, was also one of the first to re-elect politicians with their roots in the communist past in the September 1993 elections. Those elections were called by Mr Walesa in the mistaken belief that they would strengthen his position and bring in a right-wing government hostile to the communists, found itself with a coalition govern-

ment led by the SLD.

Nine months later the Hungarians followed the Polish example but with a big difference. The SLD was led by Mr Kwasniewski, a

young man who was a child during the Stalinist period. The Hungarian socialist party was led by a 60-yearold party veteran, Mr Gyula Horn, who as a young man had helped defend communist party rule as Why Czechs will re-elect a champion of capitalism

The Czech Republic is the only central European country from the former Soviet empire not to have elected former communists to power. This is partly to do with the nature of the Czechs, a phlegmatic people who became the most Germanised of the Slavs under the Hapsburg empire, and developed the most advanced

economy between the two world

But it is mainly due to the onality and political

In the Polish case the elections

showed that millions of voters were frustrated and puzzled by the col-lapse of the powerful Solidarity movement. Mr Walesa had helped undermine the alliance of workers, church and intellectuals that brought down communism by insisting on running for president in 1990 against the wishes of the Solidarity government led by Mr Tadeusz Mazowiecki. This split the movement and led to the collapse of

the first post-communist govern-

n both Hungary and Poland, the electoral victory of the communists revealed the inability of the inexperienced politicians who emerged after 1989 to communicate the need for reforms which widened the gap between rich and poor and boosted also reflected the dissipation of fears that a vote for the re-styled social democrats signified a return to Soviet control and Stalinist methods. And the disciplined former communists were helped in their return to power by the disunity on the right.

This was reflected in last weekend's presidential elections: Mr Walesa could have won had he been able to garner the votes of former

single-mindedness of Mr Vactav

the "velvet revolution" of 1989, he

split the amorphous Civic Forum

programme. He then led his Civic

Democratic Party to victory in the

which emerged from it, with a

Thatcherite sounding program

one overheard comment. Neville-Jones may have been working off her frustration at

being pipped to the post of next British ambassador in Paris by

veteran Euro-expert Michael Jay.

That appointment had been

the person most miffed by its

premature publication is the

lame duck.

generally expected, however, and

present incumbent Sir Christopher

lallaby. He is not due to leave

until next summer, and does not

relish spending all that time as a

Turkey to control

# How to get the best out of your

turkey. Christmas is approaching

and Observer is harpy to pass on the following tip colled from the pages of Volando, Aeroperu's inflight magazine. "Make the

turkey drink a lot of spirits before

killing it to improve the taste and

to make the killing easier..."

more than 100,000 people saying

Don't call us

of free market reforms and rapid

vague social democratic

Mr Klaus is the only

Klaus, the prime minister. After

between the two candidates.

back to work as an electrician. His inclination will be to seek the leadership of the anti-communist opposition and try to forge an alternative government in time for the 1997 general elections. It is a con-frontational task which he could well find more congenial than the frustrating role of head of state. As president, he often seemed ill at

voters. Instead, they spread their votes among 12 alternative candidates in the first round of the presidential elections - as they had in the 1993 parliamentary elections. He nearly succeeded But the former proletarian hero failed to persuade more than half the electorate that he, not Mr Kwasniewski, was the man to lead Poland into the 21st century. By harping on the past and trying to revive memories of privation and oppression under the old regime he revealed himself as a man with little to say about the future. In the two televised debates he failed to provoke Mr Kwas-niewski, whose careful replies, youthful image and protestations of belief in democracy and the market economy underlined the difference in style as well as substance

Solidarity supporters and rightwing

One question now is what the future holds for the ex-president. Mr Walesa is only 52, too young to retire and too over-qualified to go

ease, his limited powers constrained

the importance of building a

of delivering votes. He also

tirelessly promotes free market

philosophy through the media

and meetings with voters and students, And he consistently

capitalism and communism".

The former professional

economist faces elections in

attacks all forms of "leftism" and

fillusions of a third way between

June next year. The prognosis: he

strong party organisation capable

right to nominate the governor of the central bank and the ministers at the head of the three "power" ministries - internal affairs, defence and foreign affairs. With Mr Kwasniewski as president the tension between government and president will disappear. The task of drawing up the 1996 budget and pressing ahead with planned reforms of the health and social security systems should be The budget debate begins in parground of rapid export and inves-

by a coalition government with a

Over the last two years Mr Wal-

esa deliberately made life harder for

the leftwing government. He vetoed

legislation, opposed finance bills

which raised income tax, champi-

oned pensioners' demands for

higher pensions and sent legislation

to the constitutional court for review. He used his presidential

secure parliamentary majority.

liament next week against the backment-led growth and slowly falling inflation. This week millions of Poles will get the opportunity to buy coupons giving them a stake in the 15 national investment funds set up to manage more than 400 state companies included in the first round of the mass privatisation

Over the coming months the government and president Kwasniewski will seek to reassure Poles that democracy and the economy is safe in their hands. They will also be keen to reassure the international community that Poland intends to press ahead with its bid for membership of the European Union and Nato

Paraphrasing former US president Lyndon Johnson, after December 23, Mr Walesa will no longer be inside the Polish tent looking out but outside the tent looking in. Poland could well find itself with both a more efficient government and a more effective opposition as a result of last weekend's vote. That would be good for democracy on

### OBSERVER

### Words are very cheap

Cyril Ramaphosa, secretary general of the African National Congress, doesn't like working in a building called Shell House, the name of the block which houses the ANC's headquarters in Johannesburg

The ANC bought it in 1991, when Shell moved to a new building. "We have no business to be in a hulding called Shell when Shell is preving to be so insensitive to the plight of ordinary men and women and children in Nigeria and also responding so negatively to calls that are being made on the question of environmental rights.

Ramanhosa said yesterday, So change the name - what's the hig-deal? After all, according to Ramaphosa, the building was never even owned by Shell, but simply had been leased by it prior to the ANC's arrival it should be simple enough. It can't really be possible, surely, that Ramaphosa is just tilting at this particular windmill in order to appear politically correct?

Field trip

Casece's privatisation programme is limping along so slowly that Dimitris Paraskevas, the government's chief expert, has decided to do a bit of moonlighting

who runs the industry ministry's privatisation secretariat, is off to Lusaka for a couple of weeks under UN auspices - to advise Zambia how to sell off its state owned bits and pieces.

Paraskevas's return is anxiously awaited by Olayan, the Saudi: group that is trying to buy Pireiki-Patraiki, a bankrupt textileproducer, and TVX Gold of Canada, which hopes to take over a state owned mine in northern Greece. Their bids have been accepted but contract negotiations have been dragging on for more than a year. They and the European Commission have accused Greece of procrastinating

over privatisation. Maybe Paraskevas will come back with plenty of fresh ideas for prodding Greek politicians into ection. Don't hold your breath.

was relatively a doddle, reports Observer's spy inside the Wright-Patterson Air Force Base keeping the peace between Richard Holbrooke - the state department's Mr Europe' - and Foreign Office political director Pauline

two egos that size." was

Peace squawks M Reeping Serbs, Croats and Moslems from each other's throats By far the more testing task was

■ Electronic banking doesn't always go at digital speed - not in Germany, at any rate. First, you must onene at the post office. When in September Deutsche Bank began – amidst great fanfares – its ambitions Bank 24 Neville-Jones, who was direct bank, it was overwhelmed representing Britain at the talks.
"Obio isn't big enough for with the response. Indeed, it was hit by a tidal wave of interest, with

they wanted to hear more about Bank 24. Naturally, those wanting to open accounts expected

They were out of luck. For Germany has a money-laundering law which requires proof of identity for accounts. And since the whole point of direct banking is lack of personal contact, there are no branches where people can simply show identity cards. So Bank 24 has to send account details to post offices, where the new account holders can collect them after officials have checked they are who they say they are. If you are wondering why all this palaver is necessary, so too are many of the would-be customers

for Bank 24, who have been left underwhelmed by it all. While it copes with the backlog and tries to chivvy the post office into action, Bank 24 has cut its spending on print and television advertising by 30 per cent for the next two weeks. Its stunningly creative slogan - "Make your declaration of independence with Bank 24" - is only being shown four times a week on TV instead of

Diplomatic choice ■ What's the difference between a camel and a diplomat? A camel can work for two weeks without drinking. A diplomat can drink for

two weeks without working.

eight. For which small mercy,

much thanks.

### \*Financial Times

#### 50 years ago Fight over nationalisation

Industrialists throughout the country have been roused to action by Mr Herbert Morrison's statement on Monday of the Government's sweeping nationalisation proposals Opposition is being rallied to forther encroachments on private enterprise.

Government has set itself was described by one writer yesterday as colossal. If coal. transport, iron and steel. electricity and gas come under the State, it was pointed out, the Government would have complete control of the physical prime movers of the country's industrial life. On the Stock Exchange yesterday the chief effect of the announcement was

seen in power shares. Among industrial interests. opposition has for some time been hardening against the Government's intention to give first priority to a widespread programme of nationalisation.

"The Government is saddling itself with a programme that will take years to implement to the exclusion of other matters," an industry spokesman declared. He pointed out that it was now lear that the Government's plans were being directed towards a complete changeover

of the country's economic life.

### FINANCIAL TIMES

Tuesday November 21 1995

Return to splendour.

Radisson FDWARDIAN mbone 0800 37 44 11 for Rese

Kwasniewski elected Polish president on 51.7% of vote | Mandela

### **Ex-communist clinches** narrow win over Walesa

By Christopher Bobinski

Mr Aleksander Kwasniewski, the 41-year-old leader of the former communist Left Democratic Alliance (SLD), yesterday clinched a narrow victory over Mr Lech Walesa in Poland's presidential

Final returns from the weekend's contest revealed a country divided between the supporters of the disparate Solidarity move-ment and those ready to entrust power to former communists. Mr Kwasniewski won a 51.72

per cent share of the poll, which saw a record 68 per cent turn out. It came at the close of an often bitter campaign during which Mr Walesa's supporters warned that a vote for their opponent meant a return to the miseries of commu-

Mr Walesa, in a pugnacious mood, called on his campaign committees to stay in existence and prepare for parliamentary elections scheduled for 1997. "We will win back everything in a

Revlon sale

were fading when Mr Perelman-mounted his hostile bid. He has

since faced a long struggle to

Revion is still burdened by

heavy debts of at least \$1.5bn.

However, Mr Perelman has

invested heavily in marketing by

signing multi-million dollar

exclusive contracts with the act-

ress, Melanie Griffith, and super-

models such as Cindy Crawford

Since Mr Jerry Levin's appointment as chief executive

in 1991. Revlon has stepped up

product development, notably by

launching its highly successful

ColorFast lipstick last year. It

has also concentrated distribu-

tion on mass market outlets,

Daiwa assets

global retrenchment envisaged although serious, is unlikely to

cripple it. But the damage to the

bank's reputation at home and

abroad from the spectacle of pun-

ishments being meted out by

international regulators may prove irreparable.

Several leading customers in

Japan have already announced

their intention to withhold busi-

That damage has cast a shadow

over Daiwa's prospects of surviving as an independent entity, and

the bank is now understood to be

considering a possible merger with a larger institution, most

ness from Daiwa.

rather than upmarket stores.

Continued from Page 1

and Claudia Schiffer.

turn the company round.

Continued from Page 1

defence and foreign affairs indicated that they would resign fol-lowing Mr Walesa's defeat. Under Poland's interim constitution, the president has special responsibil-ity for these three ministries and the three men were appointed at

Shares fell back slightly on the Warsaw Stock exchange where prices and volume had been depressed for some weeks, but the initial reaction from business was muted. The Warsaw Stock Exchange's main indicator dropped by 3.8 per cent on the news of the SLD candidate's victory, but a western banker who declined to be identified said there had been no nervous movements by foreign investors.

Business is awaiting Mr Kwasniewski's first moves as president before passing judgment on the prospects for his five year term. The head of one Warsaw-based stern investment fund, noting Mr Kwasniewski's western manner and grasp of economic issues,

thing depends on what he does about privatisation and what the SLD does about the National Bank of Poland (NBP), the central bank" he said.

Mr Kwasniewski's policy towards the central bank, whose chairman, Ms Hanna Gronkiewicz Waltz, ran unsuccessfully in the campaign and is determined to stay in office, will be seen as a major test of his commitment to

Poland's market reforms.
Under the constitution, Ms
Gronkiewicz Waltz, who has maintained tight monetary poli-cies, has security of tenure until 1998. However, changes in the banking law planned for next year could limit the bank's inde-

pendence and force her to resign. Mr Kwasniewski's election coalition with the Polish Peasant party (PSL) have control not only of the presidency but also the government and both houses of parliament.

Scene, Page 2

### in protest to Shell chiefs over **Nigeria**

Johannesburg and Caroline

Mr Mandela also called for a regional summit to discuss mea-sures against Nigeria's military leaders, in the wake of the execution of nine minority rights activ-

ecretary general of the African National Congress, suggested Britain was considering a possible freeze of Nigerian assets. In London, the Foreign Office said it was "not aware of anything along

expressed strong disappointment that Shell had not done more "to show its outrage about what was happening in Nigeria and then to place pressure on the Nigerian regime because of the economic

Niehaus said that in spite of Mr Mandela's strong plea there had not been a substantial positive response. Shell South Africa directed inquiries to its head office in London, where officials

EU needed to discuss "tougher measures with its partners, including the US", but pointed out the EU took only 30 per cent of Nigeria's oil exports

held talks in London with Mr

In addition to a ban on arms exports, he said "they have said they would also be taking other measures, such as freezing the assets of the military dictators and their civilian collaborators, as well as restricting their move-

### **Bosnia territory** claims drag peace

US organisers of peace talks. Negotiations between the leaders of Serbia. Croatia and Bosnia. in progress for three weeks, showed no sign of a break-through at 1500 GMT, which was the time by which US officials had promised either a signing ceremony or a formal announce-

There were further signs of western hesitation to commit ground troops following warn-ings by senior US Congress officials that they had serious reservations about sending troops to

Britain will participate in the planned Nato-led peacekeeping force in Bosnia only as long as the US and France do, and could follow American plans to withdraw after 12 months, a senior

probably Sumitomo. Such a merger would produce the

# talks past deadline

efforts to end the war in Bosnia ran into unexpected difficulty yesterday as haggling over terri-tory dragged on for many hours beyond the deadline set by the

The delays cast doubt over the viability of an elaborately crafted Bosnian peace process, which is supposed to culminate with the deployment of up to 60,000 Natoled troops, including 20,000 US soldiers, to implement a settle-

British official said yesterday. The British official said in

world's largest bank by deposits. Brussels the Nato-led peacekeep-

Harriet Martin in Sarajevo and Lionel Barber in Brussels

US President Bill Clinton's

### said that he expected capital inflows to accelerate. "Every-A revolutionary result, Page 15 Editorial comment, Page 15

ing effort was part of a "single effort" and an early US pull-out would trigger withdrawal by

Officials close to the talks said the biggest sticking point was the width of the corridor linking Serbia with the town of Banja Luka and other Serb-held land in northern and western Bosnia.

Early yesterday afternoon in Dayton, Ohio, where the negotiations are being held, Bosnian officials said the talks could drag on into the evening, despite earlier pledges from Mr Warren Christopher, the US secretary of state, that Washington's patience was

A growing body of opinion in the US Congress is arguing that the US should shore up the embattled Bosnian government with money and arms but avoid putting American lives at risk.

At the Dayton talks, Mr Slobodan Milosevic, the Serbian president, has pressed for the widest possible land corridor, to ensure the greatest access for his gov-ernment to the Serb zone which will make up 49 per cent of a future Bosnian state.

The Sarajevo government is strongly resisting any territorial concessions in the area of the corridor, on the grounds that such a move would dash all hope of knitting together a unified Bosnian state. However, Mr Alija Izetbegovic, Bosnian president, faced not only strong US pres-sure to give ground but an increasingly united Serb-Croat front.

FT WEATHER GUIDE

President Nelson Mandela of South Africa called in executives of Shell South Africa yesterday to complain that the oil group was not doing enough to exert eco-nomic pressure on the Nigerian

ists this month. Later, Mr Cyril Ramaphosa

Mr Carl Niehaus, an ANC spokesman, said Mr Mandela had

power that it holds".

Mr Mandela "very strongly" raised the question of Shell's planned investment in a \$3.6hn liquefied natural gas project. Mr said it was for Shell South Africa to comment on the meeting.

In Brussels, EU foreign ministers agreed to tighten an arms embargo, freeze aid and extend visa restrictions to all members of the Nigerian government. Although they did not back an oil embargo, they left open the possibility of tougher measures. These could include an oil embargo, supported by Germany and Sweden, freezing of assets and scrap-ping preferential trade access.

The ministers agreed that the

Mr Ramaphosa, who on Friday John Major, the British prime minister, said he was disgr at the way Shell had handled recent events, but was encouraged by signs of a stiffer response by the British government.

ments in the UK".

Observer, Page 15 South Africa survey, See Separate Section

### THE LEX COLUMN

### Fudging the budget

The US budget agreement thrashed out over the weekend has failed to impress the financial markets. Having rallied strongly during last week's dis-array, US bonds and stocks made early gains yesterday but fell back in later trading. This is less illogical than it seems. The markets have so far been able to maintain their upward momentum because investors were confident some sort of accommodation between the White House and Congress would be reached. A deal has duly been done, but its credibility, as the market has always feared, is in doubt. The deal allows both sides to return to the table but the detail still has to be thrashed out by mid-December, when tempo-rary funding runs out. Worse, investors are waking up to the danger that by front-loading tax cuts and postponing spending cuts an agreement may fall to sort out the budget deficit prob-

lem once and for all. Since the US market has already discounted rate cuts on the back of an agreement, US bonds are likely to prove vulnerable to bad news. A sell-off on the scale of 1994 is not on the cards - 10-year US bond yields are still 75 basis points above their low of January 1994 - but the 60 basis point differential between German and US yields is likely to sbrink. The German inflationary outlook appears increasingly favourable and rate cuts are likely to be hastened as other European banks ease monetary policy. Although expectations are that the Bundesbank will cut before Christmas, little has been discounted in the market. Even without a correction, German bonds are likely to outper-form US bonds in the medium term.

#### Japanese chemicals

Japanese chemical companies are punching above their weight. The decision by Mitsubishi Chemicals, already the biggest of the Japanese producers, to combine its plastics business with smaller rival Tonen is an attempt to beef itself up. The merger will make Mitsubishi one of the world's largest manufacturers of poly-thene and plastics for film, ropes and injection moulding. With the Japanese chemicals industry dogged by slack demand and weak prices at home and stymied by a strong currency abroad, any move to bring economies of scale and save on costs is welcome. But what is really needed are production cuts. Last year's merger of Mitsubishi Chemicals with one of its sister companies signally failed to deliver these.

The underlying problem is the hollowing out of the Japanese economy. Customers in the automotive and electronics industries have been shifting production abroad to combat the ris-

ing yen. With recession cutting into cash flow, and the high cost of over-seas sites, Japan's chemicals companies have found it difficult to follow suit. That has given local Asian com-petition a head start. South Korea is now a net exporter of chemicals and the normalisation of relations with China will bring access to a huge new market. Both the Koreans and the Taiwanese seem intent on building market share, whatever the short-term cost to profits. To respond to those challenges, the Japanese will require more drastic action than anything

#### Rexam

seen to date.

Like much of the paper and packaging industry, Rexam is suffering from rising raw material costs and customer destocking. Like Arjo Wiggins Appleton and De La Rue, its manage-ment seems to have been caught out by the speed and severity of the downturn. In August it expected 1995 profits to match last year's £230m (\$356m). Now it is predicting a 20 per cent drop. But Rexam's problems run deeper. Over the past eight years, the group has sold itself to the City as a management story - a sleepy printer transformed into a high-quality, highgrowth packaging business by a whiriwind of acquisitions. Now it appears the group is just as cyclical as ever. Moreover, many of the current prob-lems lie in the coatings division which has been the focus of much

making returns of 12 per cent. This year Rexam as a whole will be lucky to manage 8 per cent. There are also difficulties in the building and engineering division, principally a window frame business, which a truly focused company would have sold years ago. The part that seems to be running best is the inherited printing opera-

The trading worries will only make it more difficult to find a successor to Mr David Lyon, the chief executive and his chairman. Rexam has been trying to fill these posts for over a year now and no appointment is expected until spring. Part of the delay has been due to the present management's insistence that any successor carries on with the same strategy. Under the circumstances, that is too much to ask.

#### UK executive pay

The argument over the Greenbury report on directors' remuneration is far from over. One of its most hard-life ting recommendations - that the full cost of pensions should be disclosed -

is being quietly watered down.
A £100,000 (\$155,000) pay increase for a long-serving director in a final salary scheme can add as much as tim to the value of his or her pension. But perversely, while the pay rise may attract comment, the pension increase usually does not. The reason is that companies do not have to declare the pension increase to their shareholders even though they ultimately have to foot the bill

The Greenbury report rightly argued that shareholders should be told the full facts. Yet plenty of companies which would have to declare big increases are less than keen. They would prefer to fudge the issue by spreading the impact of pay increases on pensions over several years.

This would be a big step back from the original report. Shareholders should be told the full implications of a pay rise when it comes into effect, not after an arbitrary period of years -perhaps even after the director has left. But even spreading the impact would be better than the status quo; it would still catch the worst abuse gratuitous pension-boosting pay increases at the end of a career. The danger is that companies and actuaries will drag the argument out, with no action taken. The Stock Exchange's reluctance to take any decision suggests that this risk is real.

Looks like v

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#### Europe today

promote dry and mainly sunny conditions in central and eastern Europe. Temperatures will remain below zero north of a line from Berlin to Bucharest where there will be patchy fog. A depression in the Atlantic will produce abundant rain clouds over the British Isles, western France and north-western Spain. The Spanish costas, however, will see plenty of sun. A southerly flow between the two systems will direct dry air with sunny spells over eastern France, the Alps, Germany, the Low Countries and Denmark. Showers will develop in the south-eastern Mediterranean region as a low

A high pressure system over Słovakia will

#### moves towards the Black Sea. Five-day forecast

Low pressure between Iceland and Scotland during the next couple of days will give unsettled conditions with wind and rain over the British Isles, the Low Countries and southern Scandinavia. The Norwegian south coast will be especially wet. It will also be rainy in the Mediterrenean region and on the Turkish Black Sea coast. However, high pressure will promote settled but cold conditions in eastern Europe. Snow is expected on higher ground in the north-east Aips.

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Reserve Bank, have been justly

praised for their commitment

to fiscal discipline, but the

modest amount of foreign

long-term capital coming into the country underlines how much more vigorously South

Africa needs to sell itself

Even the success of fiscal

policy may be open to ques-tion, with Mr Liebenberg

accepting that the budget defi-

cit, as a percentage of gross

domestic product, may this

year fail to hit its 5.8 per cent

target. This will, in turn, swal-

low more of the already low

level of domestic savings and

reduce further what is avail-

able for private and public sec-

revenue machinery, and the

demands on expenditure are

still subject to unexpected items popping out of the post-apartheid woodwork. Such

strains may well intensify as

inexperienced local authorities

struggle, and sometimes fail, to

keep within their own budget-

ary limits. All of this allows

the government very little eco-

nomic leeway, and, with the

rand now fully subject to inter-

national pressures, places a

greater premium on maintain-

ing internal political stability.

sharp exchange, the govern-ment coalition has held

together well. Its Achilles'

heel, and that of the country

more generally, is the volatile

situation in KwaZulu/Natal,

and relations between the ANC

and the mainly Zulu Inkatha

Freedom Party, headed by

Chief Mangosuthu Buthelezi,

More than 100 people die

most weeks in the province as

a result of criminal and politi-

cal violence, and relations

between the ANC and IFP

show no sign of improvement.

Disputes over electoral bound-

aries and the future role of tra-

ditional leaders forced the post-

Perhans even more hazard-

the minister of home affairs.

Apart from the occasional

Government debt already absorbs nearly one in five rands collected by the creaking

tor investment.



FINANCIAL TIMES SURVEY

Taking on the competition: Nelson Mandela presents the Rugby World Cup to South Africa's captain Francois Pleasar, Can the country win the battle against unemployment and attract substantial foreign strestme

### **SOUTH AFRICA**

### **Nettles that** need grasping

The challenge is to create the framework to attract substantial foreign investment and labour-intensive industries, says

Roger Matthews he South African economy has been running this year as fast as its inherited constraints will allow but as a response to the enormous pace of political change

that is still far too slow. This year's expected growth rate of 3 per cent, with a marginally higher figure likely in 1996, represents scarcely a drop in the sea of popular expectations. Growth of only 3 per cent means unemployment will keep on rising. It already stands officially at 33 per cent of the workforce but among blacks the figure for those without formal work is closer

to 50 per cent. Sustained growth of 6-7 per cent is needed, ministers and private sector economists agree, first to absorb new entrants to the job market, and then to begin making inroads into the huge pool of longerterm unemployed, many of whom are unskilled and have never worked.

No statistics better illustrate the extent of the long-term challenge facing the African National Congress, its coalition partners, and the white-dominated business community. All other political, social and racial reforms may ultimately count for little if they cannot jointly create the framework that will attract substantial foreign investment and labourintensive industries.

The ANC is sitting pretty, politically. President Nelson Mandela bestrides the political stage, at 77 a figure of unique moral authority whose one-nation message of reconciliation continues to blunt, if not bury, the inevitable tendencies

party, through the November 1 local elections, has increased both its share of the popular vote and its grip on the machinery of government.

As Cyril Ramaphosa, the ANC secretary-general, acknowledges, the party now has three and a half years before the next general alec-tion - and Mr Mandela's departure from the political scene to demonstrate that it can meet some of the aspirations of the people who voted it into power in April 1994.

Building a stable platform from which to launch a brighter future has consumed much of the past 18 months. The first draft of the final constitution has been published, a mass of legislation has worked its way through parliament, including new laws on indus-trial relations and education, local government structures are being put in place, land reform is under way, and ministers are gradually learning the skills of bureaucratic man-

But the overall process is slow, and is weighed down by the ANC's commitment to seeking consensus, a process which can be criticised as a denial of leadership by those of Thatcherite persuasion.

In the absence of a viable alternative party of government for the foreseeable future, the ANC may already have succumbed to the twin beliefs that it can best avoid mistakes by shunning short-term solutions and that it has the political latitude to plan at its own pace for the next century. The price for such an assumption may, however, be higher than the ANC realises.

The soaring crime rate, especially in Johannesburg, where armed men now hijack vehicles in the city centre during the middle of the day, could already be inflicting long-term damage on international views of the country.

George Fivaz, the national police commissioner, said recently that murder, rape and armed theft were "threatening to rip our civilised world

More than 110,000 vehicles have been stolen or hijacked in the past year, an increase of 30 per cent. Detection rates and police morale are both low. encouraging the further development of organised crime and, increasingly, the trade and consumption of narcotics. There is also growing anecdotal evidence of businesspeople abroad turning down postings in South Africa because of the unacceptably high risks.

Negative images could in turn limit the potential for tourism, where the country has a vast range of natural advantages, and a sector which remains probably South Africa's best single hope for creating large numbers of geographically dispersed jobs and checking the deterioration in the balance of payments. The ministry of tourism is currently conducting one-day workshops throughout the country, which will lead to the publication of a second green paper, probably to be followed by a white paper, and then, sometime pext year, the formulation of a tourism policy.

Selecting priorities for an untried government with a plate piled high with problems was always going to be tough. It is not made easier by the dual burdens of being bead of government and of the state falling on one elderly man. The case for the appointment of a prime minister responsible for the daily management of government would appear strong, and has been argued within the ANC. It is vigorously supported by some senior members, but differences over the selection of a candidate appear to have blocked further moves. Such an appointment might

also help articulate a more ponement of local elections on November 1, and in the present dynamic economic message to climate it is difficult to see the rest of the world, much of which has yet to be persuaded how they will be successfully staged on March 27. of the warmth of South Africa's embrace for the private sector. Chris Liebenberg. ous would be an election result the minister of finance, and that gave the ANC control of the largest urban areas. Chief Chris Stals, the governor of the

in this survey

Politics: The ANC is celebrating a remarkable lection victory

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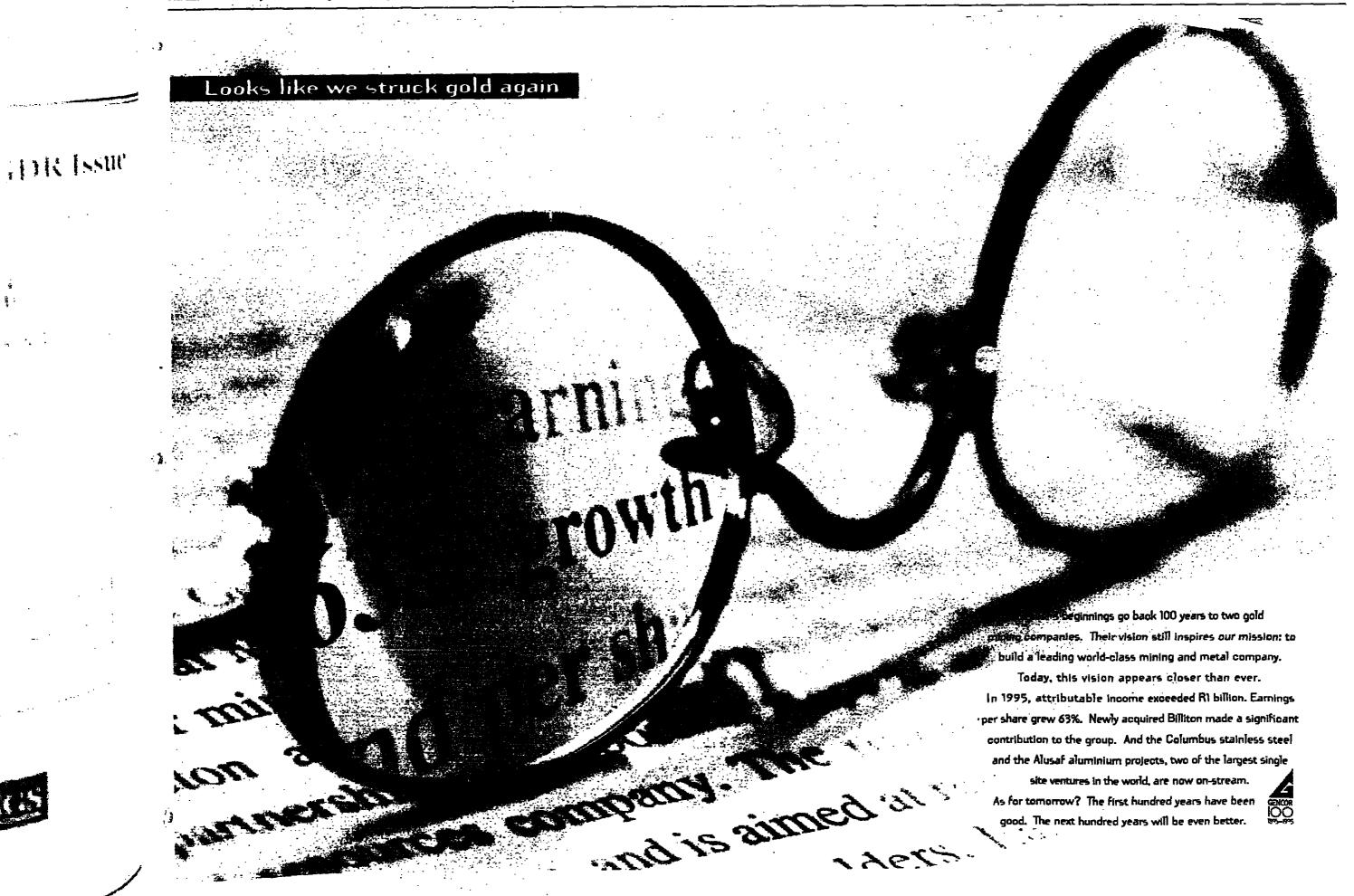
© Tourism: Rich new seam opens up

Editorial production:

Buthelezi has said the poll will be an issue of life or death for the IFP, with defeat opening the way to more violence, and victory to the autonomy of the province, neither of which is acceptable to the ANC.

Resolving that issue and many others will require patience, a virtue with which the ANC appears well endowed. It has refused to be rushed into decisions, which means it has made relatively few mistakes. While the ANC's confidence is growing, its political opponents have yet to regroup, and the international climate remains generally

What the ANC needs to demonstrate is a readiness to grasp the immediate nettles which could adversely affect its ability to deliver longer-term social and political goals.



### A remarkable result

While the ANC was celebrating its success, the other parties were in a sombre mood

A jubilant Nelson Mandela gave the go-ahead, the music blasted out, and an elbowpumping, high-stepping victory dance at a Johannesburg hotel got under way.

For the second time in 18 months, South Africa's president was celebrating a remarkable election success.

The first event marked the African National Congress (ANC) triumph in the country's first democratic poll, held in April 1994. On this occasion, it was the ANC's resounding success in South Africa's local government elections last

The party had matched its support in the 1994 general election, securing just under two thirds of the popular vote in a 66 per cent turn out.

Sceptics had been proved wrong. Slow delivery on general election promises - notably the pledge to build Im homes by 1999 - had neither undermined ANC support, nor

warning that the party must now "roll up its sleeves" indicated that he took neither for granted.

However, political analysts have been cautious about drawing too many conclusions from the outcome.

Voting did not take place in troubled KwaZulu/Natal. where more than 2,000 people have died in political violence since January this year. Nor was polling possible in Cape Town, in the Western Cape, postponed because of a dispute over electoral boundaries.

Analysis is also made difficult by the complicated electoral system that effectively gave more weight to constituency minorities, usually though not always - white. Nevertheless, the outcome

provided insights and pointers about the contestants and their prospects for the next general election, due to be held in 1999. While the ANC was celebrating its success, the other parties were in a sombre mood.

Former president FW de Klerk's National Party had lost support among a vital group the Coloured (mixed race) voters in the Western Cape. whose backing had been critical to the party's performance enthusiasm for the democratic process, though Mr Mandela's in the 1994 poll, helping it win control of its one and only

Nor had the election brought

much fresh talent to a party badly in need of a new generation of leaders.

For the right-wing Conservative Party, the local government election marked its eclipse by General Constand Viljoen's Freedom Front, but that was scant comfort for the party that seeks an Afrikaner

It secured barely 5 per cent of the vote - not insignificant, but hardly enough to provide the mandate it seeks for a concept that is likely to remain no more than a drea

Meanwhile, the Democratic Party, home to the liberal cause, fought back from its poor showing in 1994. In securing around 3 per cent support, the party recovered some of the ground it had lost in its traditional stronghold, the wealthy white suburbs of

Its performance owes much to its articulate and pugnacious leader, Tony Leon, and the high profile achieved by the parliamentary performance of its energetic MPs, but the party is unlikely to be more than a human rights watchdog, important a function though

For Chief Buthelezi's Inkatha

Freedom Party, the outcome confirmed what had long been suspected - that it enjoys little support outside its ethnic constituency - the country's 9m Zulu's, most of whom live in KwaZulu/Natal

But perhaps above all, the election revealed that the National Party is still burdened by the baggage of its past, and that the party that ruled apartheid South Africa for four decades is not meeting the challenge posed by the transition to democracy.

Its leadership is dominated by a tired old guard, devoid of ideas and uncomprehending about the radical measures it has to take if it is to remain a force in the new South Africa. Senior officials make no

secret of their belief that Mr de

Klerk has had his day. "But

who is his successor?", asked one party veteran. The party's predicament was highlighted by its reaction to the news that broke on the eve of the poll. Much to the consternation of the right, KwaZulu/Natal's attorney general decided to charge former defence minister General Magnus Malan and 10 other retired senior army officers in connec-

tion with the murder of 13 people in the province in 1987. Mr de Klerk's condemnation

Prisoners of the past: Chief Mangosuthu Buthelezi and FW de Klerk

of the move as breaching a government amnesty provision may have had substance, but it can have done no good to the party's election image.

If the Nationalists are not only to consolidate their white constituency, but to make inroads into the DP vote. retain the loyalty of the Coloureds as well as a substantial section of the Indian community and appeal to a growing black middle class, they have to live down their past and project themselves as the party of clean government, human rights and sound economic management.

Coming to the defence of General Malan, as Mr de Klerk and the party did, was hardly the way to go about it.

But the action against the former defence minister has other far-reaching ramifications. It has undermined the surprisingly good relationship that has developed between Mr Mandela and General Constand

Any development which antagonises the white right should not be treated lightly, for within its ranks are the potential assassins who could destabilise the country with a single bullet.

The Freedom Front, however, is a far cry from the extremist factions on the lunatic fringe of South African politics, and the danger of its sympathisers within the armed forces taking part in a co-ordinated military resistance to political change has passed, ssuming it was ever a possi-

hility. The longer-term consequences of the action against General Malan and others may not be in their impact on whites, but on what the case reveals and what it may mean for Chief Mangosuthu Buthe-lezi and the Inkatha Freedom Party (IFP), long suspected of having links with the shadowy so-called "third force", thought to be behind the Natal killings.

The mood within the ANC is hardening and senior officials express frustration with Chief Buthelezi, warning that should he and his party be implicated by the investigations, the government might be tempted to take tough but unspecified

The ANC are confident, however, that if and when elections go ahead in the early part of next year, the party could win a majority of local government seats in the province.

One casualty could be proper discussion of the constitutional issue which goes to the heart of the strained ANC relationship with the chief, and which was not properly resolved during the constitutional talks that paved the way for the 1994 elections: the relationship problem of KwaZulu/Natal.

between the country's central. government and the provincial parliaments.

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Chief Buthelezi's demand that these parliaments retain substantial powers is seen by the ANC as a cover for what it believes is his ultimate objective - the secession of KwaZulu/Natal.

No one is watching developments more closely than the National Party, likely to pull out of the government of national unity in the run-up to the next general election to give itself a free hand to attack the ANC.

The party still yearns for an alliance with the IFP, which they see as sharing their views on economic issues. But as long as it is led by Chief Buthelezi, the IFP is seen as much a prisoner of its past as a National Party led by Mr de

However, a deal with an IFP led by somebody of the calibre of Oscar Dhlomo, who left the party some two years ago to head a Durban political thinktank, could be the basis of an alliance which could control KwaZulu/Natal and the Western Cape Assemblies, and deny the ANC a two-thirds majority at the next election, suggest

National Party officials. But getting rid of Chief Buthelezi is easier said than done, and Mr Mandela's triumph last month leaves the country no closer to resolving what may yet prove the toughest test of his presidency: the

#### ADVERTISEMENT

### Southern Africa's economy is well placed for further expansion

Dr Chris Stals, Governor of the South African Reserve Bank, talks to John Spira, Business Editor of a leading Johannesburg newspaper.

Spira: You must be delighted that South Africa's inflation rate has declined to a 22-year year-on-year low of 6-4 percent.

Stals: Yes. It certainly vindicates our policy of strict monetary discipline and the patience we have exercised over the years to ensure that inflation was brought under control without having to strangle the economy in the

Spira: One of the major constraints on the South African economy was for many years, particularly during the sanctions era, a severe capital haemorrhage. The dramatic turnaround in this important balance of payments determinant has no doubt altered South Africa's economic matterial.

Stals: Between 1984 and last year's elections. South Africa suffered a capital outflow of R5 billion a year. South Africa has now been rewarded for scrapping apartheid with a massive turnaround in capital flows, allowing

the economy to start growing.

In the 12 months to the end of June, South Africa enjoyed a total net capital inflow of R18.6 billion — a figure which exceeded the most optimistic predictions of the pre-election period.

At the time of the elections, the economy was fairly depressed and structurally distorted, while expectations of what the next South African economically distorted, while expectations of what the next South African economically distorted.

would deliver to improving living conditions were extremely high. In my respects those expectations were completely unrealistic. e capital inflows have provided a major stimulus for economic growth, The capital inflows have provided a major stimulus for economic grow but significant structural adjustments are still required for the economy

The inflows have helped the economy to perform better than anticipated, but while the inflows are welcome, we need to guard against excessive euphona, since an unduly large proportion of the capital has been in the form of short term funds. I would be happier to see a change in their composition to the medium to longer term.

Spira: How, specifically, have the inflows provided a boost to the econ-

Stals: The benefits include:

The ability to finance the growing deficit (because of rising imports) on the current account of the balance of payments without recourse to the International Monetary Fund and/or other short-term sources of loan

A R10 billion-plus increase in South Africa's gold and foreign exchange

ction in the Reserve Bank's short-term foreign borrowings from R8.5 billion in May last year to the current R1 billion.

The scrapping of all exchange controls on non-residents. And we've been able to make a start on dismantling restrictions on resident-owned

Support for a relatively stable exchange rate for the rand, which has

depreciated by less than 4 percent from July last year.

Spira: What are the sources of foreign capital?

Stale: They stem mainly town: South African importers and exporters finding it easier to access short-and medium-term trade finance for, in particular, rising imports.

and medium-term trade finance for, in particular, rising imports.
Short-term borrowing by South African banks from foreign banks.
The access gained by the government, public vector institutions and the private sector to borrowings on international capital markets.

A substantial inflow of funds invested on the Johannesburg Stock. Exchange and in new equity issues, as well as government and public

Soirs: The steep dip in South Africa's inflation rate has prompted calls for the Reserve Bank to pursue a more stimulatory monetary policy, especially to meet the high expectations of better living conditions for all. There has, in particular, been a call for lower interest rates, bear-ing in mind that South Africa's real rate of interest, at 12.1 percentage

State: Nowhere in the world can poverty be relieved by the creation of more money. On the contrary, it is particularly under circumstances such as those now confronted by South Africa that the ability of monetary policy to mainfinancial stability will be tested and tried, t relatively high levels of interest rates will have to be tolerated

and endured to ensure that economic growth is not based on excessive borrowing from banking institutions. This is especially relevant in the light of the new dimension brought to monetary policy by the lifting of sanctions, in the wake of which commer-cial banks are now less reliant on the Reserve Bank as a lender of last resort. The banks' foreign liabilities, including on-lending of foreign funds to clients, rose from R10.8 billion at the end of 1992 to R24.7 billion at the

end of May this year. The excessive liquidity of the banking sector has led to a sharp increase in

total bank credit extended to the private sector, with consequent implica-tions for the growth in money supply and inflation.

Economic expansion which becomes overly dependent on the creation of maining financial stability is to bring the high rate

of money supply back to the targeted expansion of 5 to 10 percent a year.

Spira: You earlier made reference to exchange controls. When will the remaining vestiges of these controls be abolished?

Stals: We're determined to continue with the gradual abolition of exchange controls but with the overriding objective of ma stability in both the domestic and foreign exchange markets.

The tempo at which the remaining exchange controls will be removed will be determined mainly by developments in the overall balance of payments

and particularly in the foreign reserves position. The growing current account deficit is not causing a foreign exchange prob-lem because of the surge in capital inflows. At the same time, the current account deficit, which could swell to R10 bil-

lion or more this year, is postproving the time at which we would feel suffi-ciently comfortable with the foreign reserves to scrap all exchange controls. In the meantime, we are constantly examining the reserves and the ability to relax exchange controls on a step-by-step basis.

Many are urging us to rid the country of exchange controls on a big-hang basis. The Reserve Bank does not see this as the answer, since such a strat-

egy would risk a swift capital outflow, depreciation of the currency and heightened inflationary press res. nergateness managemy pressures.

Moreover, South African Industry is not sufficiently competitive, raising the spectre of local corporations setting up manufacturing plants in foreign

I should nevertheless point out that exchange control relaxation allowing



local institutions to buy foreign portfolios of shares by swapping local portfolios has proved to be a success.

Spira: Will future monetary policy be targeted at reducing South Africa's inflation rate yet further?

Stals: Yes, because an obstinate inflationary psychosis persists within the minds, plans and projections of South Africans. Many still believe in the outplayed theory of a trade-off between inflation and growth. the rising pressure for excessive wage and salary increases, which vitably lead to more unemployment, threatens to fuel inflation,

Also requiring monetary policy vigilance is the continued pressure on fis-cal policy, including the deficit before borrowing on the budget, the total level of government expenditure as a percentage of gross domestic product All these factors have the potential to increase total inflationary press

In short, the battle against inflation has not been won. The next phase in the crusade against inflation should be an effort to bring it down more or less in line with the average experienced by South Africa's major trading part-

That will require inflation below 5 percent — an objective which is not unrealistic, but which will require active support from government, organ-ised business and commerce, trade unions and the general public. The Reserve Bank is determined and ready to lead the way.

Spira: The South African economy appears to be recovering satisfactorily, with 3 percent growth in GDP in prospect for 1995. Is the revival

Stals: 1 believe so, for the following reasons:

 Economic growth in many of the industrialised countries is expected to be relatively high eart year. Indeed, world demand and trade may earry on rising for a long period of time and thus should benefit South African

mer and business confidence has improved substantially in the light of the relatively stable political conditions in the country.

Real fixed investment has risen by no less than 15.5 percent since the start of the opturn in the business cycle up to the first quarter of 1995. This has brought about an expansion of the production capacity of private business emerprises producing goods for the export market in

Labour productivity has continued to increase relatively sharply over the past six years and private business undertakings are steadlestly attempting to improve the effective utilisation of their labour and capital

The low level of South Africa's foreign debt, at least in the short-to medium-term, allows foreign borrowing to finance the imports of capital

Spira: Certain African countries — specifically Zambia — have accused the Reserve Bank of using exchange controls to discourage South African investment in the region.

Stals: Not a single application made in the past few years by a South African company to invest in Zambia has been rejected. Exchange Control treats all applications for investment in other African countries with sym-

pathy. The Reserve Bank (avours investment in the region on the basis that one cannot prosper if one has indigent neighbours.

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#### ADVERTISEMENT

### Taking South Africa into the 21st Century by John Spira and Faizal Dawjee

The Reconstruction and Development Programme (RDP) was launched eighteen months ago after the inauguration of the democratically-elected government in May 1994. Jay Naidoo, Minister in the Office of the President, a former general secretary of the powerful trade union federation, the Congress of South African Trade Unions, was entrusted to ensure that, through innovative management, financial and political skills the basic needs of the historically disadvantaged were being met by government.

"The challenge (of the RDP) is to meet the basic peeds of our people and at the same time stimulate economic growth. In other words, to tackle powerty not merely through handous, but with programmes that build the country's wealth, says Nardoo.

The main features of the RDP relate to skills and human resource development, economic growth, meeting people's basic needs, and the democratisation of institutions to that r-making in government is a process of a purmentable between knelf and the major

Among the certy success of the RDP was the building of conscisus. The Government of National Unity is fully committed to polici coherent growth and development strategy. tted to policies which promote the RDP as an integrated and

Most corporations have adopted resjor social responsibility program business have joined government to reach consensus on growth strategies. The National Economic Development and Labour Council (NEDLAC) has been created to build consensus between government, labour business and community. Ordinary citize responding positively to the calls of the Masakhane ("Building Together") Campaign.

The Massichane Campaign was launched to under-pin the RDP and to delver effective services to the people. Its aim is to also break mortgage, rent and service boycotts adop the communities in protest against the spartheid regime. President Madela th his mangunation speech, promised delivery of the RDP will start within 100 days of the new venueur, in consultation with national departments, 22 Presidential Lead Projects were suched which are simed at improving the lives of especially the poor, warms and children.

The government was also able to take the vision of the RDP and translate that into projects with timesables. Through the creation of the RDP Fund, which provides bridging frame departments to reprioritise spending, there has been fast-track delivery, and an effe orace system is now in place with key performance indicators. This will measure the fiture and its impact on goals such as trai ry or government experionate and as at en, job creation and affantative action.

The Local Economic Development (LED) programme established by the RDP Ministry is THE LOCAL ECONOMIC LEVELOPMENT (LENT) programme established by the ROP Ministry is aimed at promoting efforts by local governments, local communities, business and labour to develop economic strategies and plans that will create job opportunities within cities; insens: and rural areas. The programme is designed to assist the ROP office to formulate a way in which local areas can contribute to provincial and national development strategies, both rural and manufactures.

The recently launched Urban Development strategy of the Government of National Unity has five manually reinforcing priorities; integrating the cities and crows and managing urban growth: rebuilding the townships and other low income areas; transforming local ions: developing urban social policy, and promoting rural social p

Early estimates of the cost of providing goods and affordable services to the urban population are in excess of R61 billion over ten years. This together with programmes e needs, provide huge op and economic and Southern africa's infrastructur

The Rural strategy outlines a vision as follows: diverse agricultural sector with farms The Kitral strategy outdoes a vision as rottower caverac agricultural sector wan proper providing income to many people; commercial sectors in country lowes and many people; between lowes and mail areas; greater access by reral populations to commercial services; accessible must local government stachmen; close links between government, civil society, business and agriculture, and safe and secure access so useful employment, housing and

included in RDP vision is the re-prioritising of government expenditure within state departments and between departments. An example of this is reducing military spending to bring about an increase in social expenditure in such fields as besith and education.

The key is less to improve the quality of the country's expenditure which already sp The key is then to improve the quality or are country a experiment where memory opening a higher proportion of its budget on accipil items for its category of development. This has an obvious implication on how government begins to charge its operational activities. The Minister stresses: "Houses, running water, electricity, tarred roads and health care facilities are one side of coin. The other is making government spending more efficient, attenuithing government departments and increasing their co-operation, and changing the mindset of civil servants to service customers whether it be the public or other parts of

The RDP's test also includes shifting the resjor production of the government's budget as a ment and introducing business p in the government's operation to improve the quality of expenditure.

"Making government more accountable, transparent and efficient requires changing old mentalities from an egocatatic view within each department to project-based distribute across Not only is the RDP gested for executing doma estic investment, but it is designed to ex

international investment as a means of creating new opportunities and wealth. It is the government's contention that investment, domestic as well as foreign, will only flow if it demonstrates fiscal discipline and encourages development of an open economy. s fiscal disciptine and encourages development of an open An important development in industrialisation policy is the notion of economic corridors.

The Johannesburg - Magusto corridor is aimed at reducing transport costs of business and incorporates the Mpumalanga Province and the Northern Province into new economic opportunities. This countributes to integration of the South African and Mozambican

omics and provide growth prospects in Southern Africa. The Government of National Unity is committed to removing exchange control. It will take place at an appropriate moment to coincide with the lowering of the tax borden on pri

It is a mass that no mation can boast unificated function resources and South Africa is by no means an exception. And when its limited function resources are justicesed upon the large needs of a disadvantaged majority deprived of many basic requirements by decades of needs of a disadvantaged majority deprived of many basic requirements by decades of discrimination, the acuteness of the demand/supply imbalance becomes severely pronounced. Prioritising the limited funds comprising the RDP budget is and exercise of

The problem is highlighted by the fact that applications from the various provinces for funding municipal services exceed the RDP budget by billion of rands. Prioritising the limited funds comprising the RDP budget is an exercise of extreme complexity.

South African townships have been characterised by the lack of sewerage and sanitation awazangs and non-exective and illegitimate local government. The Extension of Mancipel Services programme is almed at ensuring rapid and visible improvement in the provision of nuncipal services and infrastructure. Support will be given to the newly ele ears to help them deliver to their local counturaties. Assessing the (inds quest

The extension of muncipal services is an engoing challenge, proposted by the recent re-allocation of R1.46 billion. The money will bring basic water services, samination, new roads and new sporting facilities to 3.5 million people - more than ample justification for the shaft

Naidoo has been criticased for having dragged his heels on RDP delivery. However, the Minister retoris: "I wan't be pressurised into creating a set of ad hoc projects that are economically unsustainable and do not meet the needs of the people. Africa is full of spectacular projects such as empty hospitals, grand suports, and highways that are useless to the people. I want to ensure that we do it right the first time. And if we make mistakes it is kee and we must learn from that".

While delays in RDP delivery have been occasioned by planning problems and a tack of skilled project managers, the framework for economic growth and development is clearly approaching reafication.

in the context of these constraints there has been remarkable delivery. Some examples

Some 366 projects taking water to 4 million people are scheduled for consulction Free health care for children, pregnant women and factating mothers has been

As many as 2.7 million people are benefiting from electrification projects. More than 4,100 families will benefit from hand reform programmes and 2400 families.

About 6 million school children are getting free meals each day.

More than 4-million people will benefit from the 614 muncipal projects - water sanitation, electricity, etc. Another key theme in RDP delivery is the development of the small and medium enterprise sector. Small connectors get more opportunities became labour-insensive methods a and the process for tendering is made simpler. Formal jobs are created through ec growth that comes from large government investments in programmes that bring basic services to the people. For this to be successful, the private acctor also needs to invest on a large scale. This however must be located in the council of rebuilding the communities.

But purhaps the brightest spot on the RDP horizon is the many issuovative initiatives coming to fight that aim at achieving the upliffunent of the disadvantaged without the need to tap the estricted RDP budger. The RDP has been embraced throughout the length and breakle of South Africa. All that is

sing the transfer of skills, creating jobs, contring community poli

antiusinem to be converted into uction. This is why Naidoo has autics to form partnerships with business and other role players in comess of their area "Government can only provide a basic level of service and we therefore urge communities to take the process forward. In this way our efforts to improve the quality of lives of our people in line with our priorities will be enhanced."

On the vision for South Africa, in 25 years time. It must be driven by an National Strategy for Growth and Development, a 5 years time. It must be driven by an National Strategy for Growth and Development, a 5 year rolling programme which has out how we are going move towards our vision. Our success depends on our commitment to rise showe offshis divisions, climatene corruption and reduce trans and violence. It depends on the investment we make in developing our people. And it depends on the leading role we play in languaging and developing our people. And it depends on the leading role we play in languaging on African region as a whole".

This is a fascinating laboratory, combining imperatives of growth and development within a context of a democracy which entreaches rights as well as opposes responsibilities. This is Perhaps it was President Mandela, in colebrating the ANC's recent victory in the local elections, who captured the spirit of the enormous challenges facing the country when he

"Units all people. Boll up your sleaves and get South Africa working." Faizal Dawjee is in the Communications Department in the Ministry in the Office of

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**Economic reviews** 

### By Tony Hawkins | Reconstruction and development programme Hoping for a golden scenario 'Wish

If reforms take place and fiscal discipline is maintained, 5% growth can be achieved

Given the impressive economic achievements of the past 18 months, the end of year assessment "must do better" may sound harsh and even unfair. It is, however, a reflection of thinking within the business community and government

Gross domestic product growth of 3 per cent this year and probably somewhat more in 1996 is just not enough to banish the spectre of "jobless growth" and, beyond that, of socio-political instability as the gap widens between haves and have nots. Sustained growth of at least 6 per cent is needed to provide jobs for new labour market entrants while making inroads into the huge backlog of unemployed.

In 1994, when GDP rose 2.3 per cent, formal sector employment actually declined, while, this year, employment is unlikely to grow more than 1.5

Obstacles to a jobs-led upswing during the rest of the decade are formidable.

South Africa has comparative advantage in capital-intensive activities such as the mining and beneficiation of minerals. Large investment projects that will have a substantial impact on exports over the next few years include the capital-intensive Alusaf aluminium and Columbus stainless steel schemes.

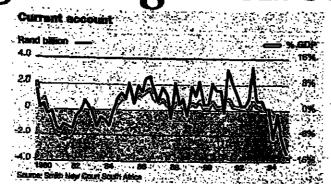
While direct job-generation at such projects is limited. there is enormous potential for indirect job creation in downstream activities, including, perhaps, more than 40,000 new jobs in small and medium-scale

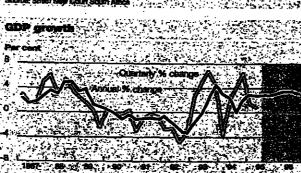
In mainstream manufacturing, however, where South Africa along with many other "transitional" economies faces a difficult strategy choice, the situation is very different.

Past neglect of black education and training and the scarcity of skills, which threatens to be exacerbated by white emigration, seem likely to become crucial constraints to high-tech economic growth. Despite this, officials see considerable potential for highech industrial growth, driven by alliances and joint ventures

with foreign investors. Socially and politically, too, policy-makers are having to target labour-intensive growth strategies. This is not going to be easy, given the calculation that wages in South Africa are 10 times those in some of the emerging Asian economies while, on a regional comparative advantage basis, labour-intensive activities would be better located in neighbouring Mozambique, Zimbabwe, Botswanz or Malawi.

Union power has also enabled the labour unions to keep pushing up real wages despite massive, and growing.





unemployment. In the first nine months of the year, wage settlements in 12 industries averaged 11.75 per cent against an estimated inflation rate for the year of just below 9 per

With a labour market where real wages rise despite 40 per cent unemployment (ignoring informal employment), productivity enhancement is crucial. South Africa's poor rating in the World Economic Forum's latest World Competitiveness report in which the country comes bottom of the class in terms of people - literacy rates, skills and productivity underlines the challenge to management with ABSA Bank calculating that output per worker in the US is 5.8 times higher than in South Africa, while in the UK the ratio is 2.7

to one and in Singapore 2.4. To grow at 6 per cent a year, the economy needs to invest a minimum of 25 per cent of GDP, compared with 16.5 per cent in the first half of 1995. With savings running at 17 per cent of GDP, there is a gap of at least 8 per cent of GDP - and probably more - that will have to be filled by increased domestic savings, a lower pub-He sector deficit and borrowing irement and foreign capi-

In 1995, GDP growth of 3 per cent will be accompanied by a exchange inflows of more than \$1bn so far this year with short-term borrowings making up the difference. Direct investment inflows

have been disappointing. Inward investment takes the form mainly of joint-venture and alliance deals with existing companies, with limited capital inflows. Brokers, bankers and business argue that foreign investment will not take off until exchange controls are abolished.

In the words of one banker: "Exchange controls have been proved to be more effective in keeping foreign capital out, than preventing domestic capi-tal from leaving." The people in Pretoria, less

excitable than their financial market counterparts, are altogether more cautious. To date, Chris Stals, governor of the South African Reserve Bank. has not put a foot wrong. The abolition of the financial rand in March went very smoothly with predictions of a 15 per cent slide in the commercial rand proving unfounded.

Dr Stals has since further eased controls by phasing down the central bank's role in the forward exchange market, by approving offshore investats by South African corporates and by allowing asset. swaps between domestic and foreign institutional investors. current account balance of He is committed to removing payments deficit of around 2.5 remaining controls at a rate per cent of GDP. The deficit is consistent with maintaining a being financed by stock stable rand while continuing

Dr Stals is winning the inflation war, too, though not without incurring the wrath of those who believe he was wrong to push up interest rates twice this year, in response to rapid money supply growth -15.7 per cent for M3 so far this year compared with a 6 per cent to 10 per cent target - and the sharp deterioration in the balance of payments on cur-

rent account. The current account swime from a surplus of R400m in the first half of 1994 to a deficit of R5.7bn in the comparable period this year. The main reason for this is the collapse in the trade surplus from R13bn in calendar 1994 to R3.2bn in the first nine months of 1995. In turn, this is largely the result of the upturn in imports intensive private sector investment - running at its highest levels since the early 1980s, though there is some expectation that lower tariffs and the October removal of the remaining import surcharge, will boost imports of consumer goods for the rest of the year

In September, year-on-year inflation at 6.4 per cent hit a 23-year low and even the less bullish forecasters expect consumer inflation to stay securely in single digits at least until 1997.

Quasi-Thatcherite supplyside policies are replacing the protection and export subsidies put in place by previous administrations. The supplyside thrust includes a Support Programme for Industrial Innovation (SPII), tripartite training schemes involving business and labour as well as government, networking with tertiary institutions in industrial research and product development, and sweeping measures to create a more enabling environment for small enterprise.

In a variation on the export zone theme, government is planning "development corridors", such as the region east of Gauteng to the Mozambique port of Maputo where there is considerable growth potential for export-oriented activities steel and metal processing. pulp and paper and agro-industry, including food processing.

Restructuring, especially given the tight domestic as well as external constraints in the form of affirmative action the shortage of skills, the increasingly competitive global markets, will not yield immediate results. Tariff reduction and exchange control liberalisation will be gradualist rather than "big bang". The same applies to privatisation.

Once reforms are in place, and provided the fiscal and monetary discipline of the past 18 months is maintained, the way will be open to 5 per cent growth and possibly more. But this golden scenario may not be achievable without a showdown with the unions to give job creation priority over ris-

'It's time to roll up. your sleeves,' was President Mandela's comment about the programme

year ago, the former housing minister. Joe Slovo, promised that 1995 would be the "year of delivery" for South Africa's ambitious reconstruction and develop-

ment programme (RDP). Mr Slovo's untimely death certainly contributed to the failure to meet the targeted 200,000 new houses a year, with his successor, Sankie Nkondo, being the target of sharp criticism for her inability to get the country's showcase programme on the road. Last month. Ms Nkondo had to tell parliament that only 10,600 state-funded homes had been delivered so far this year.

Frustration with the RDP is increasingly apparent within government itself - witness President Mandela's "it's time to roll up your sleeves" vic-tory speech after this month's local elections, and the call by Trevor Manuel, trade and industry minister, for "more action and less iargon".

The ANC swept into office in April 1994 committed to a far-reaching but overly ambitions, needs driven programme designed to restructure and transform South African soci-

At basic needs level, the focus of the RDP is jobs, land redistribution, housing, water, electrification, telecommunications, health and education. From the outset the pro-

ramme was criticised on two main grounds - that it was a socio-political "wish list" without structured priorities and that the funding provisions were not only vague, but incompatible with the government's commitment to fiscal discipline.

lronically, the funding issue has been overtaken by frustration at the failure of ministries and departments to spend their development budgets. Last month, the cabinet minister responsible for the RDP. Jay Naidoo, announced a new fast-track disbursement programme aimed at halving the rollover of R2bn of unspent RDP money in the current fiscal year.

If his new targets are meet, all but 10 per cent of the R7.2bn earmarked for the RDP in 1995/6 will have been allocated, with substantial amounts provided for municipal upgrading, urban renewal, health and rural water supply.

The RDP's slow start is blamed on inappropriate appointments – within Mr Naidoo's own department as well as that of the new housing minister - a long-winded and intensely bureaucratic decision-making process, the absence of "delivery mechanisms" at grassroots levels for some programmes, and the "centralist" tendencies of some ministers and officials. determined to keep a tight

grip on the process. Where delivery systems already exist, the RDP is on target. Reporting to the cabinet last month, Mr Naidoo pointed to 300 projects bringing clean water to 3m people, the electrification (by parastatal Eskom) of 2.7m homes, the expenditure of R350m on policing, free school meals for 3.5m children and free health care for pregnant women and for children under the age of six.

Non-governmental organisations (NGOs) and community self-help organisations worry that they risk being "crowded out" by the state.

Mamphele Ramphele, who heads the Independent Development Trust, warns that the RDP is in danger of becoming "a bureaucratic nightmare that will undermine the efforts non-government agencies. Dr Ramphele's NGO has an impressive track record building 2.400 new classrooms. helping 100,000 people to buy serviced land and financing 300 rural clinics.

Others fear that community self-help schemes are at risk as activists look to the envernment - through the RDP - to take over the work they have done in the past. As the criticism of RDP non-delivery mounts, so the search for delivery systems has strengthened the hand of those calling for more outsourcing to parastatals, private enterprise and

Mr Naidoo's revised strategy - with its 25-year focus replac-

ing the five-year quick fix of the initial RDP draft - targets partnership with private enterprise in infrastructural development and the provision

of services. Private enterprise will be allowed to manage services for local authorities, to assist local authorities in drawing up business plans, and devise "build-operate-transfer'

Getting delivery systems up and running will improve RDP performance markedly over the next 18 months, but only if the economic targets of faster growth, with relative price stability and a shrinking public sector deficit, can be achieved. The RDP is criticised here, too, not because of the commitment to fiscal discipline. which is being met, but because of its needs-driven "cart-before-horse" philoso-

> Sankie Nkondo, the housing minister, is being blamed for not getting the showcase programme on the road

"We have to put jobs before houses" says one businessman, echoing Mr Manuel's call for faster economic growth as a prerequisite for social prog-

Nor will fiscal stability be achieved if government planners lose sight of the affordability issue, leaving the state to pick up the resulting subsidy tab. Speakers at a recent housing congress zeroed in on the "unrealistic" nature of a social programme that seeks to provide unaffordable homes for the poor.

Bob Tucker, general manager of E Bank, the Standard Bank's community services arm, points out that threequarters of the homeless will not be able to afford the type of home that government seeks to provide.

Almost half the country's

than RI,000 monthly and only about a quarter of the population can afford a conventional house on its own plot of land. To be able to build or buy a 30 square metre home - about the size of a two-car garage on its own plot, a family would need a monthly income

**SOUTH AFRICA 3** 

of at least R3,000. A recent study of squatter households in the Gauteng region found that only 18 per cent of the people were earning any income at all, while 47 per cent were living below minimum subsistence levels.

This affordability dimension will force the RDP planners to rethink. A year ago, Tokyo Sexwale, the premier of Gauteng province, set a target of 150,000 new homes for his first vear in office.

Eighteen months later just 1,200 have been built, and last month Gauteng announced plans to spend R225m on upgrading squatter camp facil-

Says Mr Tucker: "Home buying decisions should be based on affordable alternative rather than on arbitrary assumptions of what people want or on politically- prescribed standards."

Affordability is a problem rights across the RDP spectrum with implications for other controversial elements of national economic policy. The telephone utility Telkom has a shortfall of some 10m lines. It will cost R20bn to provide 4m new lines, but the parastatal does not have the resources to fund such a programme which may yet force a reluctant ANC administration to acknowledge that, like outsourcing, privatisation will have to be part of RDP implementation.

The government's commitment to partnership with NGOs and private enterprise as well as its own learning curve experience points to faster implementation of the RDP next year, combined with greater pragmatism in tackling deep-seated social problems that will take a generation and longer to resolve.

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### **Black empowerment** its set on business citadel

There are many opportunities for black businessmen to exploit

Having won political power, black South Africa's next target is the business citadel which, if experience elsewhere is any guide, will be a tougher proposition. At the small and micro enterprise levels, where black business is already dominant, the task is different, and easier, from that in the formal economy, where skills, technology, experience and scale economies

work against late-comers. A 1993 World Bank survey of the more established "dynamic, or potentially dynamic" black businesses identified four sectors (retail, construction, taxis and clothing manufacture) as areas where black business had the potential to build market share. The four sectors were selected partly because they were relatively undemanding technologically and also because, with the exception of the taxi industry, start-up capital requirements were modest.

The Kombi taxi industry was the dominant form of black entrepreneurship, with more than 50,000 taxis accounting for 1.7 per cent of GDP in 1989. It was the sole black-driven industry to have a "significant impact" on the economy as a whole. A fifth of the companies in these sectors were classified as dynamic fast laners", another 20 per cent as potentially dynamic but constrained by various influences and the remaining 60 per cent as businesses

battling to survive. Market factors - in the form of strong competition - were the main constraints, followed by the cost of doing business and inadequate premises. Finance was in fourth place in the hierarchy of constraints, though this was not the case for the dynamic businesses that were self-unding. Access to skills, including manaerial skills, and access to land, for construction companies, were significant constraints, as also was crime and violence. The prominence of competition in this list of constraints illustrates a threat as well

The threat lies in the temptation for policy-makers to devise artificial measures

for improving competitiveness in the form of affirmative action programmes such as preferential tendering for black-owned husiness and sub-contracting quotas both of which are as likely to damage competitiveness at national level and deter new investment as they are to foster black

That the opportunities are there to be exploited is highlighted by the experience of organisations such as the three-year-old National Economic Initiative (NEI). It seeks to network small and medium-sized rsinesses with the economic mainstream, making use of a "one stop centre", the Business Opportunity Centre (BOC). The BOC provides training, finance. informa-tion and advice on opportunities and even premises for small firms. Funded by NGOs and private sector companies such as the

Joint ventures and sub-contracting are paths to greater black business involvement

Kagiso Trust, Ford Foundation and Barlow Rand Ltd, the NEI has developed links with the South African Bureau of Standards, the Council for Scientific and Industrial Research and the National Productivity Institute, all of which provide the technical back-up that black business desperately needs.

The two most obvious paths to greater black business involvement that white business can promote are sub-contracting arrangements, which are becoming increasingly important, and joint ventures. On the sub-contracting front the award of contracts for the provision of im extra telephone lines will bring together principal telecommunications multinationals and franchise agents and sub-contrac-

Joint ventures are on the increase, too. At the end of September, a black investment group, Worldwide African Invest-ment Holdings (WAIH) launched Afric Oil which is taking over 100 filling stations from Caltex in Gauteng. Caltex has a 10 per cent stake in Afric, which is controlled

by WAIH with 51 per cent. A subsidiary of the state-owned Transnet transport paras-tatal has 29 per cent and the balance of 10 per cent is held by FirstCorp Merchant

A variation on the joint-venture theme is the black-owned New Age Beverages company, which has the Pepsi-Cola franchise in South Africa. New Age is 25 per cent owned by Pepsi US, but the bulk of the new investment - 50 per cent of the equity - came from African-American investors who formed a company called Egoli Beverages, including big names from show business such as Whitney Houston and Johnnie Cochrane from the O.J. Simpson defence team. The balance was raised from black South Africans - individuals, labour unions and other black groups.

The long-term plan is that Egoli will divest, selling its shares to South Africans, with New Age planning to go public on the Johannesburg Stock Exchange before the end of the decade. Rather than operating through existing distribution networks, New Age has created its own infrastructure in the process creating dozens of new small businesses in the form of small haul-age companies that deliver Pepsi to some 2 000 wholesalers across the province of

A year after its launch, New Age is selling 40 per cent more than target and earlier this month, its rival Amalgamated Beverage Industries, which has the Coca-Cola franchise, admitted that operating margins had fallen as the company was operating in "an intensely competitive market place".

Unbundling is contributing to black empowerment process, too, most notably through the sale of Methic, a life insurance company, formerly controlled by one of the country's two large insurers, Sanlam. The vehicle for the unbundling was New Africa Investments Ltd (Nail) whose other large investments include MTN in the mobile phone industry and the country's main black newspaper, The Sowetan. Whatever the route to black empowerment, the emergence of black-owned investment vehicles is clearly a large factor in providing what one leading white

businessman calls "a door for potential partners and unbundlers to knock on".

Labour relations: by Roger Matthews

### Smaller in number and shorter in length

The private sector has suffered very few disputes, despite tough wage bargaining

It has been a good year for labour relations in South Africa. The number of days lost as a result of industrial action is likely to be the lowest for many years, and a new labour law has been passed by parliament which will provide a sophisticated framework for luture relations between management and workers.

During the first nine months of this year about 870,000 days were lost because of strike action, against 2.5m in the comparable period last year, 2.4m in 1993, 3.1m in 1992, and 2m in 1991. Andrew Levy and associates, the labour consultancy which compiles the statistics, said strikes so far this year had been relatively small and

were over quickly. It also noted that some 75 per cent of the days lost this year had been as a result of disputes involving local authorities and state enterprises, probably a reflection of government efforts to restrain the public sector wage bill. Strikes in the public sector also drew the greatest amount of national attention, particularly the Johannesburg street cleaners and hospital nurses.

By contrast, the private sector has suffered very few disputes, despite tough wage bargaining. This suggests that the union movement has suffered less than expected from the loss of leadership caused by the number of officials who left to pursue political careers following the April 1994 general election. Pay settlements have, however, generally been running significantly ahead of inflation, with most increases between 10 per cent and 12 per cent.

Part of the explanation for this relative harmony in the workplace was that the Confederation of South African

firmly set on the main prize of the year, the successful passage of a new labour law. Cosatu's alliance with the African National Congress always assured it of legislation that would represent a big advance on the current legal hotchpotch, but still found it necessary to mount several weeks of what it described as "rolling mass action", which at its peak brought some 70,000 workers on to the streets of Johannesburg.

Employers responded that they would rather sit out a six-month strike than accept some of the demands by unions, particularly for imposed centralised wage bar-

> A new law will provide a framework for future labour relations

gaining. Bobby Godsell, a director of Anglo American who represented the employers during negotiations at the National Economic Development and Labour Council (Nedlac), said the demand was impossible to concede. At the conclusion of negotiations he said that he had to be able to tell South African companies that this was a draft law under which they could continue to operate profitably.

Sam Shilowa, general secretary of Cosatu, eventually decided not to put at risk the advances offered by the new legislation by insisting on centralised bargaining, which anyway already existed in several industries. However. the bill does allow for an extension of industry-wide bargaining should the different participants require it. The unions also backed down on the issue of replacement labour, allowing employers to alternative workers during ter it.

Trades Unions (Cosatu) and strikes in particular indusits allies had their sights tries.

But overall, the unions had every reason to be satisfied by the shape of the new labour legislation. Although much of the focus is on nipping disputes in the bud and keeping them out of the courts, perhaps the most important single advance for workers is the creation of workplace forums, which for the first time gives them a modest opportunity to contribute to the way in which a company is run.

In any company which employs 100 or more people the largest union has the right to seek the establishment of a forum which requires employers to provide a range of information about the performance of the company, and provides for joint decision-making on a range of specified topics.

Tito Mhoweni, the minister of labour, told parliament it would be wrong to expect the bill to eliminate all tensions many of which were rooted in the country's apartheid past especially at a time when industry required massive restructuring as it faced up to global competition. But the bill did represent a revolution in the way disputes would be resolved.

At the heart of this is the commission for mediation, conciliation and arbitration. which is aimed at providing a speedy and accessible professional mechanism for handling conflicts. Mr Mboweni stressed that the objectives of the bill were not to allow the exercise of union power to destroy wealth-creating capacity, or allow individuals to be

subjected to undue hardship. Work is now proceeding on setting up and staffing the structures provided for by the legislation, a process that is unlikely to be completed for several more weeks. Mr Mboweni is aware that the success of the new labour regime will initially depend on the efficiency of the keep the right to bring in machinery erected to adminis**Trade:** by Tony Hawkins

### Lomé block a big disappointment

Pressure is growing for closer trade links with the fast-growing markets in Asia

European reluctance, if not refusal, to grant South Africa even limited Lomé Convention terms, is a setback to a country that desperately needs rapid export-led economic growth. According to a study by the Institute of Development Studies (IDS) at Sussex University\*, the European Union's unwillingness to offer preferential entry Lomé terms to South Africa reflects a hardening in attitude against non-reciprocal trade liberalisation.

South Africans can be for given for thinking that the EU prefers to support President Mandela's administration with high-profile aid pledges rather than closer trade ties. Indeed, when South Africa was offered access to the EU's General Sys industrial products in 1994, unlike other developing countries, it was denied GSP terms for its agricultural exports.

The EU seeks to explain this by arguing that South Africa is not a developing country, but this is a blurred, not to say highly politicised area, given the access granted to eastern European countries. According to the IDS, the different treat ment meted out to Pretoria compared with past policies towards South Korea and Brazil "provides a stark example of the change in attitude". South African negotiators believe that they are being punished for the sins of their apartheid fathers.

Most developing countries exporting competitive items to the EU are more developed than South Africa - in terms of the United Nations Human Development Index - while more than half of them have more favourable access terms. Rather than offering South Africa Lomé terms, the EU has suggested an "asymmetrical" free trade agreement, which would give Pretoria limited preferences in the EU during a transition period before reciprocal free trade. Only a relatively small proportion of South Africa's exports would

benefit from improved market access, though the positive impact on agricultural exports would be substantial.

Some 80 per cent of South African exports to the EU are agricultural products and preferential access for such imports would be politically controversial and likely to be strongly opposed by the powerful farm lobby. The IDS study concludes that, while most of South Africa's 45 "policy relevant" exports to the EU would benefit to some extent from both Lomé terms and a free trade agreement. Lomé has the added advantage of a "carte blanche" approach in the form of automatic duty-free access for all industrial products. which would be more appropriate for an economy in the

gain more from a free trade agreement than a Lomé deal The danger in this, from Pretoria's viewpoint, would be that of retaliation by existing non-EU trading partners. IDS notes that of the 190 most nportant EU exports to South Africa, no fewer than 152 are

throes of restructuring.

Because of its reciprocal char-

acter, EU exporters stand to

also exported by the US. East Asta, with whom South Africa is anxious to strengthen trade links, would obviously be unhappy with such a deal, while a free trade agreement with Europe would further bolster the politically-sensitive one-way trade relationship South Africa has with most of

its African neighbours. At this stage, the terms of the EU offer to South Africa are unknown, but Pretoria would much prefer Lome access, despite the fact that the margin of Lome preferences will be eroded as the Uruguay Round reforms are implemented With some analysts arguing

hattle for preferential entry to the European market, there is growing pressure for closer trade links with the world's fastest growing markets in Asia. Last year, Far East markets took a fifth of South Africa's exports, second only to Europe's 43 per cent and ahead of both Africa (15.6 per cent) and the Americas (14 per cent). The bulk of South Africa's African business is with its immediate neighbours - its fel-

that South Africa is losing the

African Customs Union (Sacu), Botswana, Lesotho, Namibia and Swaziland - and Mozambique, Zambia and Zimbabwe. These are all small - if not tiny - markets, with limited growth potential. Indian Ocean states, Mauritius, India, Pakistan and Singapore have far greater potential, certainly in the near term. Negotiations with South Africa's Sacu partners for the restructuring of their customs union agreement have reached "an advanced stage", according to officials. and should be finalised by March 1996. The hope is that the revised Sacu treaty will

Southern African Development Community. This is a sensitive area, since several of Pretoria's partners believe South Africa is behaving like the "bullyboy on the block" in trade issues. Indeed, Robert Mugabe, Zimbabwe's president, is alleged to have accused Pretoria of treating his country as if it were part of the Northern Transvaal. By agreeing to negotiate preferential

create a platform for a broader

community embracing other

members of the 12-nation

low members of the Southern entry for Zimbabwean clothing and textiles, South Africa has defused the immediate crisis, as far as Zimbabwe is concerned. But Botswana's Hyundai car assembly factory and what remains of manufacturing industry in Zambia are continuing problems. The harsh reality, which even South African politicians are reluctant to acknowledge, is that, uncompetitive though some of its industries may be, South Africa will still be the dominant regional exporter of manufactured goods.

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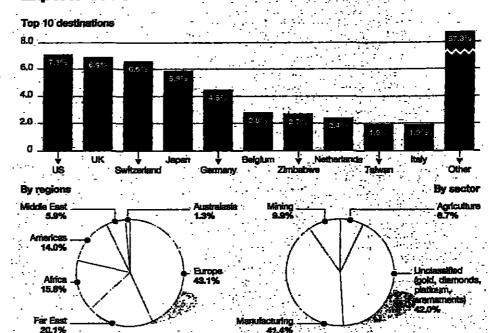
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On the import side, Germany heads the field, closely followed by the UK. the US and Japan, Precious metals - gold. diamonds and platinum other unclassified items including armaments dominate exports, accounting for 42 per cent of the total, while manufacturing's share is 41.4 per cent. Other minerals - espe cially coal - contributed almost 10 per cent and agriculture 6.7 per cent. De declining production, gold still accounts for 28 per cent of merchandise exports - though the per cent reflecting a 45 to 50tonne fall in production from last year's 584 tonnes.

In the first eight months of 1995, exports were up 14.6 per cent in value (5 per cent in volume), while imports had risen over 36 per cent in value and more than a quarter in volume. The yawning gap between import and export volumes reflects the import-intensive investment-led nature of South Africa's economic upswing, as well as the poor performance of gold exports. The good news is that manufactured exports have performed well, despite warnings that South African manufactures are unable to compete in global markets. Machinery exports rose 85 per cent in the first 8 months of 1995, while chemical sales were up 72 per cent and wood pulp 82 per cent. If South Africa is to solve its unemployment crisis, export-led growth is vital. Trade expansion will create far more jobs than aid.

Institute of Developm tity of Sussex. Trade b and Europe: Pubme P

### Exports 1994



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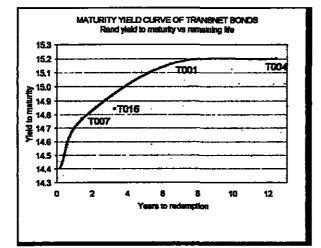
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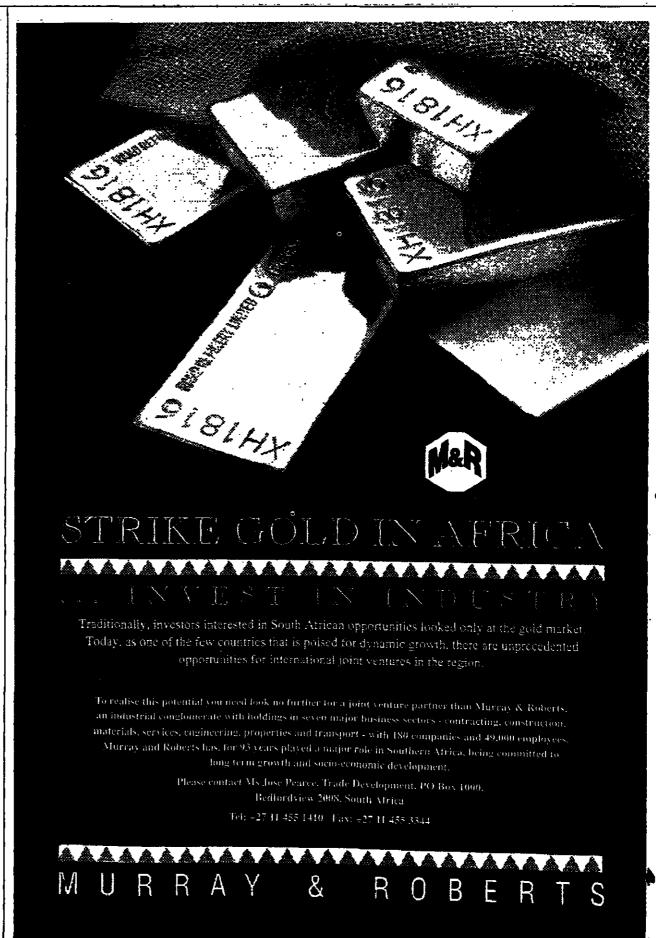
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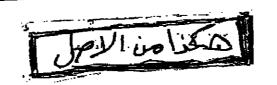
Bond Code	Redemption Date	Coupon Rate	Issued R million
T007	01 Apr 1997	12.5%	1715
T016	15 Feb 1999	11.5%	1451
T001	01 Apr 2002	12.5%	737
T004	01 Apr 2008	7.5%	4630

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The government has begun to see the value of private sector involvement in state enterprises

Few issues are causing the South African government greater uncertainty in formulating policy than the reorganisation of the state sector. Most of the African National Congress, including ministers, remain strongly opposed to any restructuring which smacks of the approach adopted by successive British Conservative governments over the past 15 years. Although Stella Sigcau, the minister of state enterprises, says she does not mind using the term privatisation, it is still a word which edges reluctantly off the ministerial

Seen against the evolution of ANC economic policy, this is hardly surprising. Only five years ago on his release from prison, Nelson Mandela talked of nationalisation as a central plank of party policy. The ANC has travelled a vast

distance since then, but is still nowhere near embracing the policies urged on it by private sector sector economists and would-be international beneficiaries. However, the evolutionary process continues, and as the harsh realities of the ANC's economic inheritance become more obvious, so the pace is likely to accelerate

Many members of the ANC still view the state sector as an important vehicle for redressing past inequities and for advancing the black majority. They argue that empowerment of blacks in the private sector tends towards tokenism, and will never be adopted with the speed or enthusiasm that can be injected into the public sector where targets can be set, training budgets allocated and performance monitored.

However, there is also a growing appreciation among some senior ANC members that without private sector involvement, state enterprises will be starved of the capital investment and access to technology which is vital for the success of the reconstruction and development programme.



South African Airways is a candidate for privatisation

Getting more ANC members to accept this, and to persuade the unions to be less hostile, is likely to occupy much of the

next few months. During this time six sectoral task teams will investigate the options open to individual industries and attempt to see how their future fits in with overall government objectives and priorities. The government has also set aside a R10m (\$2.7m) budget for employing outside advisers.

Meanwhile, Mrs Sigcau will undertake what she has described as a "national roadshow" which will visit many parts of the country to ascertain the view of provincial governments, local business, unions and other interested organisations. The minister said she wanted the process to be open and transparent. "All ideas are welcome and no options are ruled out. We want to find solutions unique to South Africa, rather than simply importing other models and applying them uncritically.

From an ANC perspective this will particularly mean exploring ways of bringing small and medium-sized companies into the process, proba-bly through encouraging larger state enterprises to spin off some of their support services. At the same time, the task teams will be looking at ways of involving and benefiting state employees, through such means as the distribution of share issues. The ministry of public enter-

prises has initially divided state companies into three sectors: those in which there is a clear public policy interest, those which have public policy dimensions", and those in which no issue of public policy is involved. The first category includes Eskom (power generation and supply), Telkom (communications), and Spoornet. the long-distance rail and freight company. In the second category are companies such as South African Airways, and in the third the small and often loss-making operations, such as Parcel Express, which appear to be among the most obvious candidates for disposal. However Mrs Sigcan has insisted that the categorisation of companies should not be used as a guide to probable

government action. Mr Alec Erwin, the deputy minister of finance, says the government is determined that what emerges from this process will be a competitive and efficient state sector. Rather than looking to the British example, which in his view cannot claim to be a success, South Africa will seek to achieve improvements through partnerships and joint ven-

tures with the private sector,

particularly on infrastructure

projects. "We want the private sector to work with us and so far the response has been very positive," he says. "But it is also very important that we first get the regulatory framework right." He adds that the government

is ready to dispose fully of those assets that had no role in the state sector, but says these amount to only a very small percentage of the total. He is also confident that the unions will support the government's Initiativ Mrs Sigcau has committed

herself to present an interim report to the cabinet on the work of the task teams during December. Once that work is completed, further public consultation will take place, and a report will be submitted to the parliamentary sub-committee. The cabinet will then debate various proposals and each state sector will be looked at individually. Implementation will begin at some unspecified date, but it is unlikely to get under way before the second half of next year.

Competition policy: by Roger Matthews

### New rules for big business

Conglomerates face allegations of stifling investment and preventing entrepreneurism

"Holy cow, holy smoke" were the first words uttered by Mr Michael Spicer, a director of Anglo-American, when in Sevtember he rose to respond to a speech on competition policy by Trevor Manuel, minister of trade and industry. The expletives provide some cine to the heat generated by a subject that for several years has been a core issue for the African National Congress, and one of no less concern for the biggest South African conglome Mr Manuel had just deliv-

ered his own view of South Africa's economic history. "The conglomerates have ensnared the market." he declared. "There is no way into the South African economy for foreign direct investors, or local entrepreneurs for that matter." He agreed that the government, though not his government, and the politicians were to blame.

"But that was then and this now, and the government and politicians in a democratic South Africa will correct the situation. We will see that bad business practices and uncompetitive behaviour, by any conglomerate or public enterprise, are shaken out of the system," said Mr Manuel. "We will see that black entrepreneurs, those people who by government decree and fiat have been at the whims of politicians because of the perverse relationship between government and white business over the past 50 years, gain access to business in an unimpeded and

fair way." The government's goals, according to Mr Manuel, are greater economic efficiency, increased and innovative productivity, competitiveness and entrepreneurship. He insisted that the government was not "anti-big", but believed the conglomerates prevented competition and entrepreneurship. The raison d'être of the new competition law was to promote healthy inter-company rivalry and the opening up of opportunity.

South African business is waiting to see how the draft law aims to promote those objectives. Mr Manuel has promised there will be an opportunity to debate the issues "in the appropriate forum and in good time," but business leaders are concerned at how little they have been

consulted They also fear that, despite Mr Manuel's protestations to the contrary, provisions could included in the legislation for the forcible break-up of conglomerates. Chris Liebenberg, the minis-

ter of finance, said that although he had not seen the legislation he was sure that it would be "very responsible" and would address certain recognised issues that characterised the South African mar-

"Listening to my colleagues in the Cabinet, I can say they are are not anti-big business. They recognise there are certain things that only big business can do. But the biggest complaint I hear from overseas people coming to South Africa is the vertical integration of major businesses. They are forced to buy from the subsidiary of a competitor, and they feel very uncomfortable about that," said Mr Liebenberg. These are the issues that need to be looked at, and I have

little doubt that it will be done in a very responsible manner.' Pierre Brooks, who heads the Competition Board and has been closely involved in drawing up the new legislation, is even more emphatic about the concerns of some South African companies. While some large companies behave in an exemplary way, others are "tyrannical and autocratic" in their dealings with smaller companies, he says.

Mr Brooks adds that for a competition policy to be credible it requires effective deterrent and enforcement mechanisms, and it is in this respect that the current policy is most deficient. "Firms can flout with impunity the rules governing competition, well knowing that even when they engage in criminal activity they will not be prosecuted. Or, if they are prosecuted, they can escape with an admission of guilt and a fine that will strengthen

their belief that crime does pay", he says.

While these and other mea sures that may be introduced would be regarded as unexceptional in other parts of the world, where competition policy is taken seriously, they will no doubt be criticised by those to whom anti-competitive or busive conduct is a way of

One key anxiety of business leaders is that the new law will pursue objectives that go beyond what they consider to be the accepted role of competition policy. At the most extreme this would include provisions for the forcible unbundling of conglomerates, but scarcely less acceptable would be an intention to use the law as a means of black

A discussion document, comtioned by the government

Business leaders are concerned about the lack of consultation

and circulated at the start of this year, specifically warned the authorities to "guard against attempting to use competition policy to attain social, redistributive or development objectives that are not directly linked to the state of competition and may be better served by other policies".

The authors, two economists and a lawver, said it was also important not to assume any direct or automatic link between positions of market dominance and market abuse. Indeed, the conglomerates argue that one of the reasons why foreign investors sometimes find it difficult to enter a particular market is the fierce competition that already exists and the efficiency of the companies involved. They add that if the companies which dominate a market were as mefficient as critics suggest, foreign competitors would quickly make their presence felt.

However, what is not denied is that there is a high degree of concentration in South African manufacturing. Precise figures

tries some 80 per cent of national sales are accounted for by four, or fewer, compa-

There are, of course, good historical reasons for this. Exchange controls, and South Africa's international isolation, forced already large companies to expand domestically, a process spurred by the sale of assets by departing foreign investors. To this, Mr Manuel adds the denial of business opportunities to black entre preneurs during the apartheid years which, he argues, contributed substantially to the situation which has seen the four largest conglomerates control over 75 per cent of the Johannesburg Exchange's market capitalisa-

But however great the sense of historical injustice, Mr Manuel is pragmatic enough to recognise the limitations of competition policy. He has already indicated that the new law will concentrate on rooting out vertical integration, setting up an effective independent tribunal to assess complaints, imposing deterrent punish-ments, and allowing companies damaged by anti-competitive behaviour to claim damag

The criteria to be used in identifying abuses, the maximum levels of fines and damages, and the composition of the tribunal are certain to be contentious issues. Business leaders have already expressed their fears about the dangers of creating an expensive and unwieldy bureaucracy that is ill-equipped to deal with the complex issues that will have to be faced.

Just how much say they will have in the final form of the legislation is open to question. Mr Manuel has said that he will submit the draft bill to the National Economic Development and Labour Council for consideration by representatives from business, unions and government, but he does not intend that it should be subjected to the clause-byclause quest for consensus which marked the progress of the labour relations bill.

This, in turn, suggests that Mr Manuel expects to face stiff opposition from parts of the business community.

### Addressing the unique needs of each of South Africa's Regions

Dr Danie Cronje, chief executive of Amalgamated Banks of South Africa (ABSA), talks to John Spira, Business Editor of a leading Johannesburg newspaper.

Spira: As Africa's largest banking group, with assets of more than R110 billion and a staff complement of 38,000, ABSA must clearly appeal to multinational corporates seeking to obtain banking-related expertise on the continent. In which specific spheres does this appeal lie?

Cronje: We operate internationally and, while doing so, provide an extremely broad range of services to clients both domestically and overseas. Crucial to an understanding of the nature of ABSA is that we are a truly South African institution. This means, from a multinational's standpoint, that we have an intimate knowledge of the South African financial services market and that we have a presence, via our 1,500 outlets, in every city, town and

village in the country. Further, as a result of our different brand names, we are able to cater for the entire spectrum of banking

I believe we're ahead of our competition insofar as we've already established structures which mirror the country's nine new provinces, with an ABSA regional head office established in each new provincial capital. We've delegated authority fully, and have a fully-fledged general manager installed

in each of these regional head offices. This is vital in the context of the way in which South Africa is evolving. Increasing powers are being delegated to the regions by the central government. If a banking group is serious about doing serious business in the various regions, it has to have someone senior enough to be able to deal authoritatively with the Premiers of each of those

ABSA is not a centralised company in which all the major decisions are controlled by the Johannesburg head office. It is a company which is decembralised, with people who have the mandate to take major decisions based in the capitals of the provinces for

which they're responsible. So if a multinational has an operation in South Africa and wishes to involve itself in a big project in a particular province, it is able to deal with ABSA on the spot. We're both national and regional in nature. It's a big plus.

Spira: Does this focus on decentralisation have implications for South Africa's Reconstruction and Development Programme (RDP)?

Cronje: Yes, indeed. For us the RDP doesn't mean the allocation of a big budget to be dolled out indiscriminately. To us it involves addressing the unique needs of each province.

Every ABSA branch across the country has its own allocation for the RDP in its budget. This is accessed to help them play a meaningful RDP role in the area in which they are situated. In addition, we have a larger head office budget which is allo-

DEER

cated in appropriate shares across the country's nine provinces. Each ABSA provincial general manager has the responsibility to discuss with the authorities of his province RDP projects appropri-

And, of course, provincial needs can differ materially. In one province it may be housing; in another education; in another a feeding scheme. It must be a project specific to a particular region which will help the people in that region.

All this underlines how we differentiate the way we do business from one province to the next.

Spira: Is ABSA expanding its international

Cronje: About 75 percent of our income is derived from retail banking operations. The remainder is wholesale — the corporate market, our merchant bank, our treasury, our international activities and other related functions.

Our aim is that by the end of the century up to 20 percent of ABSA's income must be derived from non-South African sources compared with less than five percent at present. We are doing this by extending our wholesale activities into the international arena. We won't do so by buying operations overseas simply for the sake of expansion. We'll also expand through organic growth of our existing network by following our clients and expanding the facilities we already offer.

Our motivation for this strategy is that our corporate clients are increasingly doing business on a global scale. The only way we can protect and extend our business is by providing the right kind and range of facilities internationally to them. If we don't those companies could start developing relations with the international banks which could threaten our business with them in our home mar-

ABSA has accordingly determined that it will allocare to its international activities up to 20 percent of its capital to protect and extend the facilities it is

currently providing. We have well established profitable and mature 15year old subsidiaries in London and Hong Kong. In Amil, we opened a branch in Singapore, the only South African bank to have a presence in that flourishing city state. Very recently, we opened a representative office in Shanghai, China - which is a reflection of the way South African companies are moving into what is potentially the world's largest single marketplace.

Earlier this year, we moved with some speed to secure the acquisition of Bankhaus Wolbern from the divesting Credit Lyonaise. This is a small but highly rated bank in Hamburg, and we are in the process of merging into it the operations of our long established representative office in Frankfurt. We'll soon establish a representative office in New

York, where we recently bought the stockbroking firm Saiccor, now renamed ABSA Securities. It is a member of the New York Stock Exchange and one of the US's top dealers in South African securities. All of this forms part of our total international strategy investment activities. We're therefore well covered globally.

Looking ahead, we shall certainly expand our London operation, since it's so central to our international activities. In particular, it's likely we'll do so by extending our services to include private banking facilities.

At the same time, I must stress that it wouldn't make sense for us to compete head-to-head with the big international banks. The overriding objective is to enhance the quality of service to our South African clients which operate internationally.

An additional motivation for our international expansion strategy is the need to diversify our risk. ABSA has 37 percent of the South African mortgage market. About 50 percent of our total advances comprises mortgages. We're happy to grow our retail business in line with the market, but wish to grow our wholesale activities faster in order to achieve a better balance of risk.

Spira: Is competition from foreign banks entering South Africa hurting ABSA?

Cronje: We're feeling the impact on our corporate business, though bear in mind that our big corpora clients have long dealt with the international banks III anv event.

In the retail sphere we've no competition from foreign banks. However, if they seek to tap the South African retail banking market in the form of money market funds (and I believe this is likely to happen), they will affect us indirectly, because they will convert the previously available scarce retail funds into

wholesale funds. We can head off the threat by getting into this market ourselves and that's something that will be in the forefront of our strategic thinking. Nevertheless, I've no doubt South Africa's retail banking market will will witness international competition in the medium term - another reason why we need to extend our international activities.

Spira: Has ABSA now fully digested its acquisi-

Cronje: Yes, other than the final implementation of the group's computer systems. But that's the way we planned it. It's a longer term process. Everything else is bedded down and is working

it's been done in the short space of three-and-a-half years. Remember that we went through two mega mergers, effectively combining four totally different banks, and all that comes with it, into one. Most

big bank mergers take at least five years, and we planned for it to take the same amount of time. So it is truly satisfying to have achieved virtually all of our targets more than a year ahead of deadline. Most importantly, staff morale is high. In this

regard, one cannot over-emphasise the role played on the communication and training front by our television broadcasting facility, Africa Growth Network, which is now on the air for more than

Spira: What is the extent of ABSA's interests in

eight hours a day, five days a week.

Cronje: We have a large minority interest in Bank Windhoek in Namibia. In the rest of Africa we conduct our substantial and growing business via correspondent banks.

We cover most of Africa; we go where our customers go. And they're expanding rapidly through-I agree with the assessment that over the long term you can't have a wealthy South Africa unless you have wealthy neighbours. We contribute to this phi-

the greatest flow of trade and support those flows to the fullest extent.

losophy by identifying those African countries with

Spira: Is ABSA making good progress on the affirmative action front?

Cronje: We have a specific policy which has been accepted right through the group - a policy based on two conditions. One is that we cannot allow our numbers to grow simply to accommodate affirmative action. The second is that we can't afford to appoint people who can't do the job.

Flowing from these criteria, we put a great deal of emphasis on training and education.

We prefer to characterise the policy as one of equal opportunity rather than affirmative action, because one encounters serious difficulties as a result of labelling people affirmative action employees. Many from previously disadvantaged backgrounds are trained professionals who cannot possibly be categorised as affirmative action appointments.

In terms of equal opportunity numbers, in the past two years our proportion of employees from racial groups previously disadvantaged in South Africa has risen from 12 percent to more than 20 percent, while 70 percent of our new staff appointments fall into this category.

It is worth noting that ABSA trains more people than it is able to employ. If we trained people exclusively for our own staffing needs, we would never make progress in the equal opportunity direction. We've accordingly instituted training programmes with the aim of creating capacity for the country as a whole. It's part of our efforts in supporting the country's Reconstruction and Development



Dr Danie Cronje

Programme and we believe such an initiative is the responsibility of all the institutions that can afford

Spira: How do you view South Africa's econom-

Cronje: Things are looking pretty healthy. The growth rate is higher now and approaching 3 percent a year. That's not high enough to create real growth per capita because of the increase in the population and the flood of immigrants. We need 5

Most encouragingly, though, inflation is down to below 7 percent. If we can break the inflationary expectation spiral, it will decline yet further — a vital ingredient for South Africa to enhance its international competitiveness.

I'm optimistic. The environment in which we do business is fine. The momentum in the economy is better than I anticipated a year ago and I think we'll enjoy an even higher growth rate next year.

South Africa's political miracle is now a fact for all to see. We're well placed to enjoy a similar healthy experience on the economic front.

ABSA Bank Treasury and International Banking Division Saniam Centre, Jappe Street, SOUTH AFRICA, 2001 Tel.: (02711) 330-3090. Fax: (02711) 330-3068 Dealing Rooms: Tel.: (02711) 336-2351 LONDON 5254 Gracechurch Street. LONDON EC3 VOEH.

### The gilt is beginning to tarnish

The abysmal performances of gold mines will speed up drastic industry reforms

On the surface, it is business as usual at South Africa's mining houses, but behind the head-office facades in Fox. Main and Marshall streets in downtown Johannesburg, the industry is in ferment.

The problems associated with maturing gold mines have not crept up overnight. But history will probably record the abysmal second-quarter performances this year - and some mining houses did even worse in the third quarter - as the catalyst for the most fundamental restructuring the 110year-old industry has seen.

The full extent of the problem is quickly evident from a few figures. Operating profit in the September quarter of around R860m for the industry was not much more than half of what was achieved in the September 1994 quarter. According to data from stockbrokers Ed Hern, Rudolph (now part of BOE NatWest Securities), the industry's average cost per onnce of gold proa year previously, while consumer price inflation was 6.4 per cent over the same period. Compared to a gold price of

around R1.390 an ounce, this left the industry profit margin at 2.5 per cent, well below the 5 per cent profit-to-revenue ratio at which mines stop paying tax. This means that, in aggregate, the local gold industry is now effectively a marginal The only good news is that

these figures - and the aggregates disguise some shocking individual performances have been so dismal that they have helped accelerate the restructuring process.

The position was summarised by Robin Plumbridge, chairman of Gold Fields of South Africa, in his chairman's review. He said: "The time for debate on this subject is over and action plans must be put in place in the shortest possible space of time. Otherwise it will be too late to save a significant proportion of our mining industry.

There can be no doubt that the prospect of extinction has had an invigorating effect. It is acting as a solvent on previously sacrosanct, but now inappropriate, working practices, and has unleashed in including capital expenditure, some senior managers an

they get to grips with the task. But while their energy and optimism is considerable, none would deny that the road ahead is daunting. As Tom Dale, managing director of Gengold, notes: "It involves considerable risk to restructure a labour-intensive industry with your backs to the

The industry, whose annual production has fallen to 550 tonnes, from 1,000 tonnes in 1970, faces two main challenges: first, what can be done to extend the life of existing mines, and, second, what steps can be taken to mine profitably the enormous amount of untapped ore reserves which remain in the Witwatersrand basin, but which cannot be mined profitably?

Finding an answer to the

first problem is the overwhelming priority, though its successful resolution may signal the way to address the second challenge, which would give the industry a new lease of life. The solution lies with productivity. This will lower pay limits - the gold price at which ore can be profitably mined improve profits and extend the life of mines. Mr Dale describes capital and labour productivity

in South Africa as "hopelessly

low". Because South Africa's

was R1.355 - 17 per cent up on almost messianic fervour as mines are so deep, the capital costs are very high, yet for 90 days each year they stand idle. Aggravating matters is the very high cost of capital - the market capitalisation of South African mines, per ounce of gold produced, is very low in international terms.

Houses such as Randgold and Gengold are trying to address this financial challenge by consolidating different mining activities, and shift-ing the focus from individual mines to these umbrella companies. If they manage to make shares more tradeable, and boost the capitalisation of these companies, the cost of capital will come down. The bigger challenge, how-

ever, lies with labour productivity, and this is not relevant only at the lower levels. One experienced observer is scathing about head office mining overheads. "The industry is full of fat cats driving Mercedes Benzes," he says. But if the problem at the top levels is bureaucracy and overmanning, then the problems at the bottom levels are poor education, Illiteracy and archaic working practices.

applied are not in dispute, but The buzz word in the industheir application will depend try at the moment is "fulco", on the vastly different circumshort for full calender stances of the different mines, operations. The industry has and the culture of those who finally secured union co-opera■ Agricutture: by Philip Gawith

### Why farmers are gloomy

Once, there was a helping hand for whites. Now, the sector is being opened up

tion in moving from an 11-day

- from 275 working days a year

to 365. But they have paid,

heavily, upfront, for this

change. Higher wages look likely to push up total working

costs by around 5 per cent, and

an additional premium will

have to be paid for working on

Sundays and public holidays. The trend is also, increas

ingly, towards productivity-

based remuneration, and mul-

ti-skilling - where under-

ground teams are trained in all

four cycles of mining, drilling,

blasting, cleaning and support.

"Down-sizing" is another

vogue concept - in some cases, such as Gengold, head office staff have been drastically cut,

and further job losses on the

mines will be inevitable as

non-profitable shafts are

closed. In Anglo's case around

a third of shafts are regarded

There is no mining house

that has not grasped the

nature of the challenge, though

some are better equipped, and

have moved ovicker, than oth-

ers to address it. The general

principles that have to be

as endangered.

fortnight to a seven-day week

Kraai van Niekerk, South Africa's minister of agriculture, could be forgiven were he starting to show schizophrenic tendencies.

When Mr van Niekerk held the portfolio under the previous government, life was much simpler. His prime concern was white farmers, in particular those who might vote for the National party, and few disputed the state's right to be centrally involved in setting the main agricultural prices.

Now the minister sings from a different hymn book. In keeping with the changed political times, the department is focusing on "resource poor" or "pre-viously excluded" farmers, rather than on the predominantly white commercial sector. A set of policies is being developed to broaden access to agriculture.

In step with the prevailing economic mood, much greater stress is being laid on the role of markets and the responsibility of individual producers, as the highly controlled structure of South African agriculture is

rapidly deregulated. For the 55,000 commercial farmers, this is a mixed bless-ing. When it is combined with

what amounts to political disempowerment, a sequence of drought or near-drought years, rising crime, stronger trade unions, talk of land taxes and land redistribution, and tariff policies which pay little attention to the agricultural sector, it is not surprising that the mood is gloomy.
Indeed, with some notable

exceptions, such as the fruit and wine farmers in the western Cape, the new South Africa has brought with it a conspicuous decline in farming confidence - in marked contrast to the business confidence index, which is at a 10-year high. Mr Koos du Toit, chief econo-

mist at the South African Agricultural Union in Pretoria. says: "Our farmers are worried. There is no strong trust in what government's inten-

Many farmers believe the government actually wants them to go bankrupt, because that would make land acquisition, for redistribution purposes, much cheaper. That may be fanciful, but it indicates their state of mind. Stories that the government plans to redistribute up to 30 per cent of land over the next five

However, some of these fears are overblown. If the Zimbabwean example is anything to go by, then the government will find it much easier to talk about land redistribution than to effect it.

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And the general retreat of the state from the agricultural domain - a new Marketing Act, with a deregulatory bias, is likely to be passed next year - will be to the good. Mr du Toit concedes: "Farmers will be exposed to greater risks...that helping hand will not be there any longer."

Previously, life was much easier for white farmers, whose support the government needed. In the first place, ownership of land was a virtual guarantee of loan facilities (often at preferential land bank rates). Second, endemic inflation contributed to spiralling land values. Third, marketing schemes contributed to price certainty. Fourth, political leverage meant that there was virtually guaranteed state assistance in emergencies

The combination of these factors, and more clement weather conditions from the 1950s through the mid-1980s, fostered a degree of security in

Continued on next page.

#### ADVERTISEMENT

### South Africa's economy will grow vigorously in the years ahead

Paul Heinamann, chairman and managing director of Forbes Financial Services Group, talks to John Spira, Business Editor of a leading Johannesburg newspaper.

Spira: What are the main areas of Forbes Financial Services

nn: The group, previously Price Forbes Group, operates in

Price Forbes, which, together with CRM International, strives to \* Alexander Forbes Consultants & Actuaries, which aims to provide

the highest quality of employee benefit consultancy, actuarial services, adminsitration and financial planning advice and health

Forbes Reinsurance Broking Services, which provides reinsurance

administration, protection and coverage services.

Integrated Risk Consultants, which specialises in risk financing consultancy and related products, captive consultancy and insurance company management. It has a 45 percent stake in short-term insurer. Guardbank Insurance Co, which engages in niche-type underwriting and specialist products. In April 1995 Forbes Financial Services acquired a 3.3 percent inter-

est (which is likely to rise to 10 percent in April 1996) in the London insurance brokerage Nelson Hurst PLC. In addition, the option which we had to acquire 50 percent of Nelson Hurst UK operations was exercised in February 1995, with the result that Price Forbes now has a 50-50 owned company with Nelson Hurst servicing the UK market. In addition, the 50-50 owned company, PFV Nelson Hurst, focuses the corporate insurance broking market in the UK and Europe. Forbes Financial Services employs 3,000 people in 40 office in most of South Africa's principal towns and cities and is active

abroad through its associations with foreign companies. All facets of our business are currently performing extremely well Our clients, which include more than 80 of the country's largest 100

stock evchange-listed companies, extend from industry and corneroe through to the agricultural, mining and parastatal sectors and to the We're South Africa's largest insurance brokers, risk management con-

sultants and employee benefit consultants. Annualised group retained brokerage and fees amount to R500 million, which ranks us among the larger firms of our type in the world, excluding the mega Alphabet-Brokers.
Forbes Financial Services is a South African company with South

African shareholders. Our staff owns 17.5 percent of the equity. Spira: Forbes Financial Services has always been a low-key organisation. Recently, however, you've beeen receiving international publicity. How has this come about?

Heinamann: On July 24, an American publication, Business Insurance, published a list of the world's 20 largest brokers. We came er 17 in terms of gross revenues and as the largest brokeruge in the Southern Hemisphere. As a result, we received a high level of feedback from sources

Spira: What are the implications of your tie-up with Nelson

throughout the world.

Heinamann: Nelson Hurst has a strong network, particularly in South-East Asia, where it does business in 15 countries, and in Latin America. We see ourselves providing a lot more services to Nelson Hurst in South-East Asia and elsewhere.

South-East Asia is behind us in terms of risk management philosophies, so we are able to make a substantial contribution there. We are now channelling all our international development through the The whole spectrum of our business is becoming increasingly interna-

tionalised — which is absolutely necessary. Spira: Does this mean that your focus is shifting away from the

mann: Not at all. We remain a South African busin

see our growth coming from here. The economy is on track to continue moving forward. Inflation is coming down and the currency has heen stable The government has demonstrated remarkable fiscal discipline. I'm

very encouraged by that. Many government departments have embarked on programmes to do

things and I sense that these will soon start happening. There's generally a momentum that is going to be positive for the country. A fundamental is that we need to believe that we can do it.

I have much contact with the South African corporate sector, from which I glean the general impression that the business community is

Nelson Mandela is a great leader, but if, God forbid, anything were to happen to him, I believe we'd get through it. Bear in mind that there aren't many nations in the world with a leader of Mandela's stature. If. therefore. Mandela went, he'd be replaced by a "normal" leader. I believe South Africa has sufficient depth in its leadership to produce

For all these reasons I predict that the South African economy will grow vigorously in the years ahead — in which event I see the bulk of the growth of Forbes Financial Services coming from South Africa.

Spira: What is the extent of your involvement in Africa?

Heinamann: We're putting together a strategy whereby we hope to tie up with partners in several African countries. This prospect aside, ning to follow our clients into Africa. And our clients are ne increasingly involved with countries to our north. We recently bought 75 percent of a business in Zambia from Lourbo. We are confident that it will be a good deal for us as very few insurance brokers are operating there.

Indeed, many African countries are in great need of the services that we are able to provide.

Spira: Has Forbes Financial Services progressed on the affirma-



Paul Heinamann

Heinamann: It's a process, not an event. We continue to make progress, but on the basis that we must continue to maintain high serrice quality and professionalism. We can't compromise on these areas. One cannot but be excited to see the quality of people coming through our ranks, though it will take time for those people to rise to settion

Price Forbes recently started a school in Johannesburg called Sukuma College. The ethnic translation for Sukuma is "stand up and look after yourself". We've taken existing staff at fairly low level from throughout the country and trained them for six months full time. It's been very gratifying to see what's come out of that. One of the top students the first round was a tea lady. That has to be exciting.

It begs the question, very seriously, how we ran this country in the past. In short, we simply haven't - by a'long way - realised our full Alexander Forbes is also running a college along similar lines and is

### Spira: Is there a skills shortage in your business?

Heinamann: Yes, but there always has been, with the result that we've had to train our own people. We have a great many highly competent people in our group. I believe we've created a quality environ-- one in which our staff has a genuine desire to work, and work Growth does, of course, create a strain in a personnel context, but

we're handling that problem reasonably well

#### Spira: How is South Africa regarded internationally?

Heinamann: A great deal more positively over the past two years. Had it not, we wouldn't have been able to do the things we've done round the world. I have spoken before of remnants of an attitude that Africa will fail; and of South Africa being tarred with the same brush. Interestingly, increasingly in certain parts of the world, you pick up the attitude that

South Africa will succeed. One can't help but think that while some countries are debating the pros and cons of investing in South Africa, some other countries seem to be taking the bull by the horns.

#### Spira: Is Forbes Financial Services feeling the heat of foreign

Heinamann: Foreign competition is certainly in evidence, but it isn't impacting on our growth. The results we produced in our past financial year, when our revenues grew by 20 percent, were better than I'd hoped. And in the current financial year we're ahead of that - from

of course, a higher base.

Over the past few years we've been able to achieve real earnings growth on a consistent basis. Few similar international companies have been able to become and acquired by the basis and acquired by t have been able to boast real growth since the beginning of the decade. 'As you'll appreciate, our profit growth lags our revenue growth because of new projects and new investments, without which we couldn't generate sustainable growth in the long term.



Forbes Financial Services Group (Pty) Ltd 25 Sauer Street Ext., Johannesburg 2001 P.O. Box 61689, Marshalltown 2107 Tel.: (011) 637-9111. Fax: (011) 838-1010

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### ADVERTISEMENT-

### Southern Africa can look forward to an immense snowball of activity

Warren Clewlow, executive chairman of Barlow Limited, speaks to John Spira, Business Editor of a leading Johannesburg newspaper.

Spira: Following its unbundling three years ago, Barlow is no longer South Africa's largest industrial group. It nevertheless remains a substantial organisation in a South African context. Against this background, how do you respond to the Minister of Trade and Industry's call for the downsizing of South Africa's major conglomerates?

Clewlow: In its unbundled form, Barlow, now focused mainly on lafrastruc-tural development, is indeed still a company of large dimensions. It employs nearly 31 000 people in 35 countries around the world and generates an annual turnover of more than R16 billion.

nearly 31 toto people in 33 committee around the world aim generales an annual turnover of more than R16 billion.

My feeling is that the Minister in question has far more pressing priorities on his plate than to spend his time anacking South Africa's major corporations, which require the muscle necessary to make their way in world markets

which require the muscle necessary to make their way in world markets against competition from multinational giants.

True, some of these big players command strong positions in the South African economy. Yet, in general, they act responsibly, particularly as in pricing their products, and, besides, there's nothing preventing competitors—domestic or foreign—from taking them on.

Barlow's unbundling was right for the company. Thist doesn't mean it's necessarily right for other companies. One has to look at the circumstances of each case. Size is usually not the criterion. Focus is, it's the trend worldwide for companies to focus on the industries in which they have the necessary

experiese. Extensive lateral diversification might have been the name of the game 20 years ago. The rapid development of communications and information technology has changed all that.

South Africa is perhaps a special case, since during the days of sanctions we couldn't made as easily as we made now. In expanding our businesses we were forced to look internally rather than externally and in the process huge Congressions to volve.

That's why we've since seen several of the large groups unbundle. But unbundling should be voluntary; it must make economic sease.

Spire: What is the nature of the more pressing priorities to which you have referred?

Clewlow: There are many, but one that is especially orgent is administration.

Africa was better run when it was administered by the colonial powers. Affirmative action is the right way to go, but you have to be careful that it's implemented in such a way that the day-to-day functions are not in The change in government in South Africa has been far more dram changes in the administrations of most other countries. Our change has been so major that whatever government would have come to power would have had to face this challenge. It's like a relay race. No matter how good the runner, if he doesn't have the baton, he's not going to win.

The transition in South Africa has been so fundamental that we have to goard

against the complacent belief that the continuing efficient function of government administration is automatic Spira: Is this one of the reasons why the Reconstruction and Development Programme (RDP) hasn't advanced as far as was generally anticipated?

Clewlow: Yes. We have enough money, for example, to make a meaningful start to the mass housing effort. We are building houses, but nowhere near as many as were planned.

Spira: Africa is sorely in need of infrastructural deve spirate Alexan is sortely in steed or intrastructural development — Barlow's principal sphere of activity. Have you been active in this

Clewiow: It's a natural area of expansion for us. The problem for Africa is that it doesn't have the money to finance such projects.

However, the World Bank has been increasing its involvement in Africa with rock solid and better controlled schemes. This is beloing to overcome the financial problem, as is the fact that many of our customers in Africa are the international construction companies. Most African countries have yet to

international construction companies. Most African coun develop the know-how to build extensive roads and dams. veverup are know-now up until extensive roads and dates.

Yet the presence of international companies in Africa is, for Bartow, a twoedged sword, since they are also our competition on the continent. If a supplier like Bartow wishes to sell to an international contractor, we come slap
up against it. We therefore have to make sure that we are a supplier as efficient as one other in the model.

up against it. We increture nave to make sure use, we are a suppose as ent-cient as any other in the world.

The advantage we have is that we're already here. We're just down the road and have the infrastructure to easily connect into Africa. We're more easily able to supply the back up — as efficiently (if not more so) than the interna-

Spira: What is (realistically) South Africa's potential over the next 10 years?

Clewlow: One needs to make some basic assumptions regarding the comithe wines of the com-next as a whole — that stability replaces instability; that governments do a better job of administration and start conforming to international economic norms; that African countries (and especially the southern African nations) develop their unquestionable mining and agricultural poundial. Once this starts to happen, poverty will abate, employment will rise and pop-ulation growth will be checked.

Given this not unrealistic scenario, 10 years from now I can see an immense snowball of activity taking place, behind all of which we in South Africa, particularly in Johannesburg as the focal point, will be the driving force. Whereas before it wasn't possible for political reasons, it's now an exciting

prospect.
Within South Africa, we are achieving vigorous economic growth in spite of a much lower contri lower contribution from mining and agriculture. That argues well for ure, especially if precious and base metal prices improve and the cli-

### Spira: What of the outlook for ongoing stability within South Africa?

Clewlow: It's sad to see the government of national unity, which was always fragile, engaging in petry party political squabbles. I would have expected the politicians to have been papering over the cracks, whereas some are driving wedges into those cracks.

We can't afford a different form of government yet. For the present it's the

best show in town and we should all be doing our best to make it work.

At the same time, I think we are seeing the beginning of an era in which politics is receding in importance and matters economic in the ascendancy.

That's the way it should be. I forecast that 1999 election will be contested nic issues than in the cast. And that will be the making not only of South Africa but of Southern Africa.

Spira: Are you encouraged by the heightened level of foreign investment in South Africa?



Clewlow: Of course. The foreign shareholding in Barlow has risen markedly in the past year or so. And the same applies to many other South African

That hasn't meant a lot of additional investment in productive capacity, nor That hasn't meant a not or administration in productive capacity, not a lot of extra jobs. But the time will come — hopefully soon — when our companies will be calling upon their shareholders, a great proportion of whom will be foreign, for more funds for expansion. I would presume that those foreign shareholders would be very happy to increase their investment

Foreign investors are often pleasantly surprised by the high level of sophistication among South African companies — by the way in which we run our businesses, financially and managerially.

Spira: What is required to enhance the confidence of foreign investors

Clewlow: Heightened political stability and the total abolition of exchange control. A substantial World Bank loan on reasonable terms might provide the boost to South Africa's foreign exchange reserves that Finance Minister Chris Liebenberg and Reserve Bank governor Chris Stals need to dismantle the remaining exchange controls.

Inflation is down to 6.4 percent and it could go lower — which means that if the value of the rand dropped as a result of the scrapping of exchange control, inflation would not rise to unacceptably high levels. The pieces of the jigstw are falling into place.

Spira: Is Chris Liebenberg doing a good job?

Clewlow: I have tremendous confidence in him. He's the right man for this job at this time — a low key, solid administrator and very experienced in practical financial matters. I also have a high regard for Chris Stals, who's a cantral bonker that is hald in high network the most the most of the property of the half in high network the most of the most al banker that is held in high exteem throughout the world.

people of this calibre, along with President Mandeln (a world class r) and FW De Klerk (who's doing a great job in the engine room) manSouth Africa's destiny. I'm ontimistic. ral banker that is held in high exte aging South Africa's destiny, I'm op

Spira: The earnings growth of companies listed on the Johannesburg Stock Exechange has been spectacolar. Can such growth be sustained?

Clewlow: The growth has indeed been phenomenal — 20 percent is below age. And the expansion isn't coming off an especially low base. By and South African companies are well structured and comply with international requirements of good corporate governance.

Things could go wrong in the next year or two, but my gut feel is that the South African economy will continue to grow vigorously in the next two to three years. So for that time frame at least, high rates of earnings growth (though perhaps not as high as those currently being achieved) could well

Spira: A year ago, fixed investment projects worth R61 billion had been launched in South Africa. This has obviously helped contribute to Barlow's recent remarkably high growth in earnings a share. Has the figure altered and do you expect the same boost from the same source in the year about?

Clewtow: The figure base't altered significantly. It would be unrealistic to expect the same rate of growth in Barlow's earnings in its 1995-96 financial year, though I would expect strong growth to materialise.

Bear in mind that Barlow is a significant potential beneficiary from RDP spending. In 1994-95 we wisely (in retrospect) budgeted for little contribution from this source. In our current financial we're bound to get some spin-Off from the KLP.

We're spending a lot of money now to create additional capacity for the future. We're demonstrating confidence in South Africa's outlook — confidence which I firmly believe is not misplaced.



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Johannesburg Stock Exchange: by Philip Gawith

When the new Act came into force this month it ushered in a new era for the exchange

Radical change is becoming something of a habit in South Africa and earlier this month it was the turn of the Johannesburg Stock Exchange to undergo reforms.

November 8 marked the beginning of a new era when the Stock Exchange Control Act took effect, usbering in negotiated commissions, corporate membership, dual capacity and a move towards screenbased trading.

It will take time for these changes to wash through the system, but they will ultimately transform the JSE.

Already some changes have been made, especially in terms of the JSE's membership. For the first time, banks and foreign firms have been able to own brokers on the JSE. The list of newcomers trading as corporate entities from November 8 includes such international names as UBS Securities and SBC Warburg Securities, and local banks Investec Equities, Firstcorp Capital Markets. RMB Securities Trading and UAL Securities.

There are also some old names in new guises: Martin & Co has become Fleming Martin. Davis Borkum Hare is now Smith Borkum Hare, part of the Merrill Lynch group, while Simpson McKie has become Simpson McKie James Capel, part of the HSBC group.

Restructuring has also thrown up one notable first, with African Life taking control of G O Flaherty to produce the JSE's first black-controlled broking firm. Also, there are now 13 black-controlled companies on the JSE, with a total market capitalisation of R4.3bn. Measured against the zero base around three years ago, this is considerable progress. However, it is a small fraction of the 646 listed companies with a market capitalisation of around R940bn.

The JSE has been slow to respond to London's Big Bang and implementation will be gradual. Some of the changes will only take effect after March 1, 1996. But Roy Andersen, executive president of the JSE, believes the JSE has been able to learn from the errors of other exchanges.

Ted Woods, managing director of Ivor Jones, Roy & Co, says: "For stockbroking firms the next six months will see margins plummet, market share shrink and overheads rise as increased competition pushes up the cost of staff. If you showed me a business with those characteristics, I would be looking to short that share . . and that's us!"

As with Big Bang in London in 1986, the rationale for the tie-up with foreign partners is the need to survive the drastic fall in brokerage that will accompany the introduction of negotiated commission. The hope is that these partners will provide access to new foreign clients, so that shrinking margins can be offset by volume growth.

Martin & Co was undoubtedly the leader in responding to the prospect of change, setting up a London office in 1986, and a New York office in 1989. Winston Floquet, managing director, explains that the strategy was "to diversify revenue sources by geography and

For some of the South Afri-

the challenge is to try and use their retail network to generate an order flow. Standard Bank, for example, has launched a toll-free number which customers can use to

place orders without having to

sign any documents - they will simply have their accounts The big money, however, is made on the wholesale side. And the really big money is not made in broking at all. For many of the larger firms, it is all about positioning themselves for privatisation, and

Telkom and South African Airways are put up for sale. What is happening on the JSE is that South Africa's leading broking firms are becom-ing part of integrated global tment banks, who hope to leverage off their research expertise and relationships to garner fee-paying business from the South African government and from private compa-

the large fees that will be on offer when institutions such as

If 1995 has been a momentous year for the JSE in a policy sense, it has been rather dismal from a performance perspective. From January to September 1995, the overall index fell by 8 per cent, with the All Gold index down by 24 per cent and the industrial index up by 2 per cent. Reflecting this poor performance, in the year to September the volume of deals also fell by 13 per cent and the value by 6.4 per cent.

Other trends, however, were more positive. Net foreign purchases of equities rose to R4.05bn, from R720m in 1994, and new capital raised rose to R14.9bn. from R6.4bn. Liquidity (turnover as a percentage of market capitalisation), excluding arbitrage, was disappoint-

can banks entering the market, ing, at 6.7 per cent. **E Foreign exchange controls:** by Roger Matthews

### reforms ahead Just one chance to get it right

Abolition is likely but the move could take longer than some economists might want

Chris Stals, governor of the Reserve Bank, want to abolish exchange controls. "We work on the basic philosophy that exchange controls are going to be abolished," said Mr Liebenberg in an interview.

But it is the how, and the when, that most exercises both men, and it is not a decision that they can afford to get wrong. Mr Liebenberg likes to use the analogy of a one-day cricket match where each batsman is given just one chance "If you are out, that is it, whereas in golf if you mess up the first hole you still have another 17 to play," he said, adding wryly that he had not been on a golf course for the past four months. "We cannot make a mistake

on this one. We have to be absolutely sure that we are doing the right thing. There is no room to be a maverick or cavalier. We cannot just say let's lift exchange controls and see what happens. Perhaps we are being too conservative. I will accept that criticism. Perhaps we do want the ice to be too thick. But we want to be quite sure that we are not going to fall into the water."

There are plenty of South Africans, however, who would like Mr Liebenberg to get his skates on. They range from private sector economists, who argue for a "big bang" approach to abolition, to those who favour a more controlled

Mr Liebenberg admits that he is under much greater pressure from people who want to

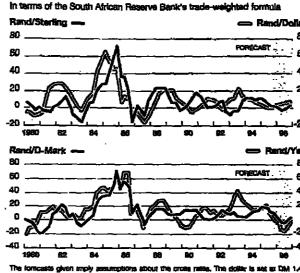
get money out of South Africa than he is from those who wish to bring money in. "A lot of South Africans sitting here say that for them the number one priority is getting rid of exchange controls. But it is not the top priority for foreign investors, although it is true that investor-friendly countries do not have exchange con-

trols," he says. Private studies carried out by the Reserve Bank on possible outflows following an abrupt removal of all exchange controls have been described by one official as "quite frightening". Although no calculations have been made public the study looked at the long pent-up demand for foreign assets from portfolio investors. South African companies, expatriates who have funds blocked in the country, and wealthy private individuals who would like to establish a hedge against the risk of politi-

While officials acknowledge that it is possible to overestimate the initial outflow, they have no doubt that it could substantially exceed South Africa's gold and foreign currency reserves which at the end of September stood at R11.79bn (\$3.2bn), or less than six weeks' imports. The gov-ernment would be expected to have negotiated a stand-by credit with the International Monetary Fund before acting decisively on exchange controls, but this arrangement would be designed to provide a cushion against the unexpected, such as the impact of a Mexican-style crisis.

With South Africa due to repay some \$2.5bn in foreign debt over the next two years. and the balance of payments under pressure from a surge of imports, few economists see

Nominal rand



politions about the cross rasse. The dollar is set at DM 1.47 end and DM 1.50 and V110 by and 1995. Thus, if we are o

much immediate opportunity for a significant increase in reserve levels. Foreign capital inflows have risen sharply since the general election in April 1994, but Mr Stals has repeatedly warned that more than half of this increase is short-term, and can leave as

The arguments advanced by the advocates of a big bang approach focus more on the risks that South Africa will run if it does not act swiftly to remove exchange controls. They say, with some justification, that domestic savings are insufficient to stimulate the growth levels needed to address the country's fundamental social and political

swiftly as it arrived.

Increased investment will have to come from overseas,

Source: Smith New Court South Africa

and foreign investors are deterred by the implicit assumption by government that if South Africans were given an alternative they would rush to put their money offshore. "If we appear not to have faith in our own economy how can we expect foreign investors to be more positive?" asks one senior industrialist.

The maintenance of foreign exchange controls also impinges on other domestic debates, such as the international competitiveness of local companies, and the market dominance enjoyed by the largest conglomerates.

The arrival of more foreign companies might inject greater competition, but it is unrealistic to expect the conglomerates to become more focused when they have such limited opporated by selling off local assets. Trevor Manuel, the minister of trade and industry, acknowledges that the abolition of foreign exchange controls forms an essential part of this debate.

**SOUTH AFRICA 7** 

Such signposts as the government has been able to erect in the past 18 months all point in the direction indicated by Mr Liebenberg and Mr Stals. The financial rand - the two-Her currency system designed prevent non-residents to removing capital from the country - was smoothly abolished in March.

Since then, the government has introduced "asset swaps", whereby the authorities have allowed South African institutions to exchange assets with foreign firms, accompanied by a guarantee that there is no foreign exchange risk. Each application is examined individually and so far deals worth more than R5bn have been approved.

Regional political developments are also encouraging the process of gradual liberalisation. South Africa's membership of the Southern African Development Community (SADC) has concentrated attention on the role that Pretoria should play as the engine of regional economic growth, and the opportunities this offers local companies

The Reserve Bank is already looking more favourably at applications from companies to invest in its northern neighbours, and has adapted its "thou shalt not" approach, to one that says "if in doubt, say yes". With far greater stealth, and much less transparency. the bank may well be in the process of extending this flexibility to applications from comnanies to invest in other parts of the world.

Banks: by Tony Hawkins

### **Competition mounts**

Banks are investing in technology while catering for a fast-growing black consumer market

setting up offices since 1990. with Africa's banking industry has entered a new phase of intensified competition. "We' have to admit," says one banker, "that we had it fairly easy in the past."

According to Henry Shaw, chief financial officer at Standard Bank Investment Corp (SBIC), all South African banks operate "higher cost-to-income ratios than their competitors offshore". Margins of around 4 per cent on assets are double those obtained in first world markets, while it costs them between 65 cents and 70 cents to generate a rand's worth of income compared with between 55 cents and 60 cents for their competitors in Europe

or North America. The squeeze on costs and margins comes at a time when banks are being forced to invest heavily in technology and training while repositioning themselves in the domestic market to provide services for a fast-growing black consumer market. Some have gone regional, and even global, to service clients for whom exports, especially to Africa. and offshore investment have assumed a new enhanced importance. Standard Bank has posi-

regional operator with a 14branch network across sub-Saharan Africa, and has established a global presence with offices in London, New York and the Far East

First National Bank has also on a very modest scale, while taking over a London merchant bank, Henry Ansbacher. Nedcor has taken the alliance route to open up in Africa while raising \$150m from the issue of global depositary receipts, which give it the capacity to strengthen its global operations.

The new banks are unlikely to challenge the hig ones ABSA with a market share of around 27 per cent, Standard (23 per cent), First National (19 cent) and Nedcor (18 per cent) - in the retail market. It is always possible that a leading international bank will buy into one of the existing banks but direct entry to the retail segment seems very unlikely.

New banks are targeting the foreign exchange, international trade, asset management, money market and corporate finance markets, using international links and reputations to win corporate business.

The newcomers may have a price advantage in the form of cheaper access to foreign credit lines, but they cannot provide the broad range of services and local expertise available from the South African banks. The easing of exchange controls and the opening up of new lines of credit have lowered

Ranking of South African banks

STRENGTH

1.057

793 291

tioned itself as a significant rates and margins while also fuelling more volatile conditions in the foreign exchange and interest rate markets.

Domestic market conditions are changing, too, with the growth of mutual and money market funds that is impacting With nearly 50 new banks expanded regionally, though on the bank's retail resource

> As margins decline, banks will be forced to cut overheads and operating costs, which will not be easy, given the need to provide services for a new kind of customer while also spending heavily on training and technology. At the same time, they will have to find new sources of revenue, by charging for services traditionally provided free, as well as by increasing lending volumes and earning more from their money and exchange rate market operations. Increasingly, mass market services will be

technology-driven. In the medium term, bankers foresee a shift away from traditional branch operations, that are becoming a liability rather than an asset

Although bankers prefer not to talk in terms of targets, affirmative action programme linked to substantial investment in education and training are high on the corporate agenda. There are very few experienced black bankers in the country and competition for scarce black talent is driving up wages while the estab-lished banks, with their costly training facilities, are finding it difficult to retain newlytrained talent.

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### Why farmers are gloomy nomic efficiency.

RANKING\*

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Continued from page 6

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point where they started taking undue risks, especially by planting maize in areas that were unsuited on any reasonable price expectation.

' The banks are ranked grobally on the 1 capital

Now all of these factors have changed. "You have to farm for profit." says Mr du Tolt. "It will not be sufficient to just own a farm. All the challenges of a normal entrepreneur will come to the fore. It should make our farmers better business people ... they will be for jed to produce more wisely

then in the past." While some of the country's commercial farmers were cossetted by the state in the past, it would be unfair to tar all with the same brush. Indeed, SAAU figures show that against average support (using

a measure described as "pro-ducer subsidy equivalent") to farmers in the European Union (1989) and the US (1992), of 30.1 per cent and 19.3 per cent respectively. South African farmers received support in 1988-89 and 1991-82 of 11.7 per

cent and 16.7 per cent. The key policy challenge is how to foster small farmers(there are an estimated 700,000 to lm) without damaging the commercial sector, which produces the bulk of the agricultural output. Last year farm gate receipts were about R28bn, or 5 per cent of GDP, though this understates the economic importance of the

sector. Fortuitously, the govern-ment believes this political imperative points in the same direction as the dictates of eco-

their more sanguine moments understand the philosophical shift in government policy, even if they are unconvinced about its viability. Less willingly tolerated, however, has been the government's cavaller approach to tariff protection. Cheap sheep meat, chicken and pork imports, for example, have this year played havoc with agricultural prices. Figures from the SAAU show that poultry and dairy imports rose by approximately 700 and 100 per cent respectively between January 1994 and June 1995, compared to the total for 1992 and 1998 combined. Beef, sheep and pork imports were up by 500-650 per cent over the same period. Prices have since fallen by between 7 and 60 per cent.

Commercial farmers can, in

### Former opponents form new compact

If white business wishes to flourish it must help less fortunate black counterparts

The South African business community has matched politi-cal change swiftly and extensively. Much is made of the fact that, through ownership, a few large groups continue to dominate the economy. But this has not resulted in standstill. These giants still tower over the corporate landscape, but it is not their size that is striking, rather the turmoil of new structures springing up from the ground.

Much of the activity involves the arrival of high profile foreign companies, but locals. especially black businessmen. are also getting in on the act. Hardly a day passes without an announcement in the press which, as recently as two years ago, would have been inconceivable. Radical politicians have changed overnight into hustling businessmen, and company chairmen who enjoyed the largesse of the National Party government has gone better than anyone have long since realised that could have hoped. Healthy ecothey need a new set of friends

What is most noticeable is large companies reporting over

how quickly a compact between white and black business has been struck. The deal is that, if white business wishes to survive and flourish in the new South Africa, the price it must pay for doing so is helping advance its less fortunate black counterparts.

It is easy to be cynical about

the expediency of a process where white business trades its capital and expertise for the political connections and access of its new black partners. In the recent deal which saw the black-owned Thebe group take a 5 per cent stake in the large electronics and telecommunications group Altron, there was no effort to hide the fact that Thebe's appeal for Altron lay in its "enviable networking competence in husiness" Few would argue, though, that if black business is to have any chance of catching up with its white counterparts, such arrange-ments are unavoidable, Many would privately admit that such bargains are a small price to pay for a stable political transition. For, on this point, business speaks with one voice: the political revolution nomic growth has also helped business's spirits, with many

this year, and some substantially more. In South Africa's case,

healthy profits can be quite unrelated to politics. Indeed, world economic growth and the state of the commodity cycle are much more important. Leslie Boyd, chairman of Anglo American Industrial Corporation, recalls that their best ever years were 1988/9, the height of the sanctions era but also, more importantly, the height of the commodity cycle. For industrialists like Mr Boyd, the post-apartheid era brings both challenges and opportunities. The challenges come in the form of greater competition, the opportunities in the form of new partners, technologies and markets, though exchange control still remains a barrier to going abroad. The Anglo group is now in partnership with ten different international partners, ranging from Daewoo and Ford, to Alcatel and RJR Nabisco. In industries where tariff barriers are falling, margins

are shrinking. In the case of

the motor industry, for exam-

ple, the tariff protection on

imported cars has tallen from around 115-125 per cant to 65

per cent, and will fall further

to 40 per cent in 2002. The com-

pensation is that the market is

passenger cars/year to While some parts of the

economy are clearly more competitive than others, the arrival of foreign competition has not caught the better companies unawares. Some of them have for many years been using international benchmarks of productivity and quality to assess their performance. There are few industries where foreign multinationals have not been operating for years. McDonalds and AT&T may be new arrivals, but Pizza Hut, Kentucky Fried Chicken and Siemen have long been fixtures in the corporate landscape. Many South African compa-

nies, especially those with a consumer focus, believe their comparative advantage lies in their understanding of developing markets. Rick Menell, director at Anglovaal, one of South Africa's larger companies, says: "The new markets are essentially those which address needs of developing consumers, such as staples, basic services and transport. Most of the first world competitors want to get into the first world sector. While we will still compete strongly in our established markets, maybe this gives us a gap." He points

growing, perhaps from 200,000 out that "relationships and cul- agreement is that exchange tural affinity" also confer an control should go, and this advantage on South African

seems only a matter of time.

There are also calls for more

competitive tax rates and fiscal

incentives to invest, though

these are less unanimous.

There has also been consider-

able disquiet at the shambles

and understaffed state of the

Customs and Excise depart-

ment, which has made South

Africa a haven for dumping

and grey imports, putting some

sure. Chris Liebenberg, the

finance minister, has taken

steps to address the problem

but business will probably

have to live with inadequacies

in this area for some while yet.

To a certain extent, busines

and government remain

uneasy bedfellows, both too

mindful of the recent past.

Businessmen remember that

Trevor Manuel, minister of

trade and industry, was only a

few years ago a T-shirted activ-ist in the townships. The tone

of many of his comments, in

turn, shows the belief that "big business" and apartheid were

cosy bedfellows is never far

from his mind. The rhetoric,

however, tends to be more

prickly than the practice, and

most businessmen say that

government is not a big factor

businesses under great pres

While most businessmen credit the government with a reasonable performance at the national reconciliation and macro-economic level, there remain one or two significant area of tension. The most important of these is the view, widely held in business circles, that government and the unions are pricing labour out of employment. "It is not logical in a nation with an unemployment problem like us to have trade union strength like we have now, supported by the government," comments one enior executive.

Mr Boyd says what business is asking for is not a change to the way that existing businesses are run, but that government should not stand in the way of new businesses developing, based on low wages. "Thinking that high wages will bring growth and productivity is putting the cart before the horse. We have to improve our productivity first and dramatically. Then, as and when growth levels of four to six per cent are achieved on a sustained basis, wages will be dragged up."

The other area on which in the running of their busithere is widespread business

Challenges of the new position The 1995 chairman's review

of the Anglovaal group, one of South Africa's larger companies, contains a clear account of how and why one company has responded to

Since 1986, Anglovaal has pursued a "repositioning" initiative, aimed at changing the group "in line with changes in South African and International society in order for it to survive and grow in future." Mr Basil Hersov, the

chairman, notes: "Repositioning is not prompted by an act of charity nor is it a reaction to guilt about the past. Repositioning is enlightened self-interest. It is not a process embarked upon with reluctance or under "It is an exciting new set of

vigour and imagination in order to place the Group ahead of competition but also to assist business in general to maintain its vital role in South Africa's future." Part of the programme is aimed internally at creating a community of interest with

challenges to be met with

all of its employees; and part is aimed externally at ensuring that the group is

identified as a constructive element in the communities within which it operates - as part of, and not outside,

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The three main internal thrusts of repositioning are: affirmative action, quality of life (education, health and housing) and employee participation. Externally. they are: working with businesses and business people who may have been disadvantaged by political legacies, contracting out, and community

To those who argue that repositioning is in conflict with achieving international competitiveness, Mr Hersov says: "If a company succe in being internationally competitive, but fails in repositioning, it endangers its survival in the medium term: similarly, if a company succeeds in repositioning itself but fails to become internationally competitive, its survival is under threat in the short term.

"Furthermore, it is not only what companies do, but how companies go about doing it, not only substance, but symbolism, style and

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### South Africa's finest infrastructure in terms of networks, systems and staff

Barry Swart, managing director of First National Bank, speaks to John Spira, Business Editor of a leading Johannesburg newspaper.

Spira: Are you pleased with manner in which FNB has been progressing?

Swart: Yes, All sections of the bank have been performing well. The biggest growth has come from Wesbank, our "wheels" bank, which has increased market share to a substantial 30 percent. FNB also increased market share in the home loans area — to a menningful 11.5 percent. We've achieved smaller market share gains in the credit card division and in project finance. Pleasing, too, is that we're steadily increasing our ratio of non-interest income to interest income. That's the global trend and we regard such a strategy as important. FNB is still in the process of building its assets in order to better utilise its infrastructure. We need a bieser critical mass in order to ominise our infrastructure.

nfrastructure. We need a bigger critical mass in order to optimise our infrastruc-

infrastructure. We need a bigger critical mass in order to optimise our infrastructure — South Africa's linest in terms of networks, systems and staff. To achieve this objective, we've expanded the number of value added products and we've persuaded our customers to buy more value added products per capita. Whereas five years ago we had two products per customer, we now have four. In addition, we've increased our customer base — in particular our savings account base — over the past 18 months, mainly in the mass market. For example, we're looking at ways and means of better serving that market. For example, we're in the process of going the smart card route. We've ordered our first million smart cards. We helped set the standards for strart cards and we're beginning to roll out at 15 of our branches. We're aiming at cost effectiveness and origing our mass market customers a chance to use more sites.

FNB has bought the 50 percent of Cash Paymester Services that it didn't own This company pays pensions on behalf of certain regional governments by biometric utuambprint technology) means. We've clinched the contract for ubia and we've hid for a number of no ial contracts in South Africa FNB has won in excess of 70 percent of all the provincial government business in open competition with other banks and has moved up its market share of municipal business from 14 percent three years ago to 34 percent.

FirstCorp has been voted the best merchant bank of the year by PMR Sur-In Botswana, from having no business three years ago, we now have more than 30 percent of the market.

than 30 percent of the market.

We've bought Meridian Bank's business in Swaziland.

We're the only South African company to have been included in the world's top 100 companies by Computer World for the effective use of technology.

All of this has been achieved on the back of the outstanding systems and services for which FNB is renowned. It's been a good year.

Spira: You've mentioned Namibla, Botswana and Swaziland. Where else is FNB active in Africa?

Swart: We only have a physical presence in those three countries. We don't want to open up branches in other countries unless it's possible to gain a meaningful presence — to be a dominant player.

In the meantime, we take care of our customers' needs by using carefully selected correspondent banks. As a result, we have a large share of South Africa's trade

Spira: What are you doing beyond Africa?

Swart: In the Far East we have FNB Asia based in Hong Kong. In the past year our presence there has been upgraded from a deposit-taking company to that of a restricted licence bank. This gives us more flexibility and enables us to raise money at lower interest raise, thereby enhancing the profit potential. It's an operation that we'll build over the years.

Our Zurich operation has been a little disappointing. Funding is a problem, so the business is going slower than we would have liked. Our internanonal merchant banking and rust operations under Henry Anshacher are making encouraging progress. Although market conditions have not been easy for the London-based merchant bank, bear in mund that we are in the UK for stratefic reasons. It's the country with which we have the elected historical

easy for the London-based merchant bank, bear in mind that we are in the UK for strategic reasons. It's the country with which we have the closest historical trading ties and London is very much a world financial centre. The Henry Anshacher offshore banking and trust operations are doing well and have been expanded during 1995 with the acquisition of a Jersey-based private banking business from Westpac of Australia. We now have offshore and trust operations in the Bahamas, the British Virgin Islands, the Cayman Islands, Guerreey, Hong Kong, the Isle of Man, Jersey, Monaco and Switzerland, giving us an ability to structure innovative deals for our corporate clients. FNB is the world's 24th-largest securities custodian. That's why we need to have an equities trading ability and the reason for buying a South African stockbroking business. We're looking at establishing an expanded presence in New York, but it will be small, bearing in mind that it would be impossible to match in size the very large and powerful players that are already in that market. We only want to go to New York for very specific niche reasons.

Spira: What is FNB able to offer annitinationals returning to South Africa

Swart: Those returning tend to pick up their links with the banks they used before they left the country. The new entrants look very carefully at the South African banks and I'm pleased to say that we have picked up some of that business.

What you have to do is demonstrate how you can offer better service and how your systems can better deliver that service. Pricing is seldom an issue. It helps if you have an oversess presence.

your systems can overeas presence.

It's well known that since 1989 we've got our systems right. We're recognised today as the bank having the most up-to-date and amovative systems. The recognition by Computer World, which is read by 3 million computer professionals the world over, means that someone is noticing just how well we're doing on that

front.

A lot of the new investors in South Africa study what the stockbrokers are saying about the banks. We've tended to receive favourable comment from the stockbrokers. Over the past five years the compound annual rate of growth in our share price has been 39 percent. Not too many shares are able to match that. The

stock market is a true market, so its Judgement is indicative.

FNB is the oldest large bank in South Africa, having its founding roots going back to 1838. And it's a full service, one-stop bank. All these factors must count when it comes to a multinational corporation hav-

ing to decide on which bank should handle its business in South Africa. Spira: South Africa's real rate of interest of 12.1 percent is amon world's highest. Is it likely to remain there for the foreseeable future?

Swart: Our long bond rates have fallen from 17 to 14.5 percent in the past year. Inflation is down to 6.4 percent - which has relevance to the price of a long term

bond.

The Reserve Bank set the parameters for the increase in more between 6 and 10 percent this year, We're running at 16 percent, which doesn't make the Reserve Bank very happy. In fact, it would incline me to want to

You've got long bond rates coming down and pressure on short term rates to rise. To a vegot long contribute to thing goods have a time percentage point increase in the prime rate early next year to keep credit creation under control and inflation down. I envisage prime remaining at that level for the rest of the year and declinates

ance of payments is a source of concern, but it's negative at the moment for good reason — gross domestic fixed investment is up 18 percent this year, so we're importing capital goods, which enhances sustainable productivity.



Barry Swart

Also easing the balance of payments pressure is the availability of short term lines. For money up 12 months, there's no shortage of international supply for South African banks. And the cost has come down.

South African banks. And the cost has come down.

As for capital flows, they're largely short term. We've witnessed much investment in our bonds and our share market. But I don't regard that as long term capital, though before has year's election we had a capital outlow of R20 billion and you might say that those are the very same flows in reverse. However one characterises such flows, they unvertheless help the foreign exchange reserves and go toward of first the comment of first the surround of first the surround of first the surround of the surround toward offsetting the current account deficit.

Spira: Will exchange controls go in the near future?

Swart: The financial rand came and west without a whimner. And the rand be Swant: The maintain from came and wear winnow a winnings. And me now me been steady since then. Reserve Bank Governor Chris Stals has accepted that exchange control has to go. Until it goes, there's an impediment to further fordy, the lifting of exchange controls is a good discip

on any government.

I therefore believe we'll see a gradual dismantling of exchange control.

A step in that direction has been asset swaps. They're unsatisfactory, but it's a beginning. I renken exchange control will be gone inside of three years — in

A concern militating against its removal is the fear of capital outflows. To my mind, that fear is exaggerated. After all, where are you going to get the yields elsewhere in the world that you get in South Africa? And that's not in the high risk stocks but in good, solid investments. Our blue chips are showing 30 percent increases:

risk stocks but in good, solid rivestments. Our blue chaps are showing 30 percent increases in earnings. That's good by any standards.

Nor do I see the clurrency depreciating algorificantly, it will drift gently lower in line with inflation differentials. In the past year it's only depreciated by 4 percent. I believe Chris Stals has been doing an extremely good job.

Spira: Is the government doing a good job?

Swart: Yes — in many ways; in others less so. On the financial discipline front, it's doing an excellent job. The budget deficit as a percentage of GDP is coming down. The Treasury has shown it can hide the cheque books if it has to.

I'm critical of the length of time the government has taken to implement privatisation. It must get on with it, because we can generate huge sums of money for the Reconstruction and Development Programme and other areas. Someone needs to grasp the nettle and start realising some of those assets, which would operate more efficiently once owned by the private sector, since nothing focuses the mind better than the bottom line.

What annoys me is that the local government functions which have already been orivatised are being measeed on a highly efficient basis. The role models have

What amonys me is that the local government functions which have arrestly own privatised are being managed on a highly efficient basis. The role models have been established and are clear, so there's no excuse for the government to continue dragging its fact. It all boils down to a lack of political will. There are no downsides to appropriately structured privatisation. Everyone gains. One of the biggest factors inhibiting foreign investment here is coince and violence. There seems to be a lack of political gumption to tackle the problem. Government has to show that it means business. Lack of decisive action in this Government has to show that it means business. Lack of decisive action in this area is giving us a bad name internationally.

It's a problem that can be addressed. It's a top priority and the government is

going to have to come to grips with it. going to have so come to graps with it.

I revertheless remain a great optimist. South Africa has a lot going for it. I would hope that the crime problem is cyclical. We might not solve it tomorrow, but I believe we'll recify it in the text year or two.

South Africa would then be a much better place in which to invest — and visit. because South Africa offers the best tourism value in the world.



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#### ADVERTISEMENT SOUTH AFRICA'S LIFE ASSURANCE INDUSTRY CAN COMPETE WITH THE WORLD'S BEST

Mike Levett, Chairman of OLD MUTUAL, speaks to John Spira, Business Editor of a leading Johannesburg newspaper.

SPIRA: As Africa's largest life assurance office (assets nearly R155 billion), Old Mutual sets the pace for South Africa's life assurance industry. In its 150th year of operation, the group recorded some noteworthy achievements.

LEVETT: We consolidated some of our investments - those of an insurance nature and where management control is exerted, including many of our foreign interest - for the first

We regard as our most important achievement the 27 percent increase in premium income to R21 billion for the past financial year. In spite of this rapid growth, our expense index was below the target set in all areas of business.

Of the total industry increase in net premium income during the 1994 calendar year, Old Mutual enjoyed a share of 40.5

Society assets under management have grown at an average rate of 25 percent over the past 10 years. After adjusting for inflation, this translates into a real growth rate of 12 percent a

Our most recent actuarial report revealed that after making commitments, Old Mutual had an excess of assets over liabilities of R18.1 billion - a figure equivalent to free reserves and, in a non-mutual life office, to shareholders' funds. This leaves Old Mutual with considerable scope for further development.

SPIRA: What is the extent of Old Mutual's foreign interests and does the scope for further development to which you've referred apply to those interests?

LEVETT: We have subsidiaries (consolidated into our most recent set of account) in the UK, Guernsey, Kenya and Ireland. And we have branches in Namibia, Malawi, Zimbabwe, Guernsey and Hong Kong. We recently opened a Boston office as a lead into US institutional markets.

We value our foreign interests at R11.1 billion - a sum equivalent in size to South Africa's fifth-largest life assurer. A total of R13.7 billion is managed offshore for clients - an

activity which includes 38 unit trust funds. Some of the fund managers have received high acclaim. For instance, with more than 1300 unit trusts operated in the UK, as of October 1st, 1995, Old Mutual's unit trust management company has ranked in the top 10 of the industry's group weighted performance charts over 2, 3, 4, 5, 6 and 7 years.\* Proven investment expertise resulted in a Micropal Award for the performance of the Old Mutual Thailand Trust during 1994. Earlier this year, the Sunday

Telegraph acknowledged Old Mutual Fund Managers as the

Top Medium Sized Group.\*\* Old Mutual International's success has been given prominent coverage in the European offshore media - a prominence which is perhaps disproportional to our influence on

international and insurance operations.

While we certainly have ambitious plans for our international operations, those plans cannot be achieved with South African policyholders' funds.

SPIRA: What is the current state of play in South Africa's life assurance industry?

LEVETT: Between 1984 and 1994 industry assets grew at an annual compound rate of nearly 28 percent to R305 billion. while premiums grew by nearly 25 percent, reaching more than R44 billion in mid-1994.

More to the point has been the immense financial benefit to millions of individuals throughout South Africa, with the concomitant contribution to social welfare. And we have played a vital part in the development of the country through the effective channelling of savings into investment.

This exponetial growth is a reflection of ever-imposing standards of product development, distribution effectiveness, investment performance and client service.

The industry has prospered through immense change and periods of intense volatility. Our dynamic competitive environment has contributed towards this robustness and

South Africa's life assurance premiums exceed 10 percent of the country's gross domestic product - the highest in the world. By way of comparison, the figure for the UK is 7.3 percent, for Japan 6.3 percent and for Ireland 5.2 percent.

SPIRA: New opportunities are frequently accompanied by new challenges.

LEVETT: Indeed, and one of these relates to inflation.

In the past couple of years South Africa has reduced its inflation rate dramatically and at its current 6.4 percent it's at

\* Source: Investment Intelligence \*\* Source: Micropal offer/bid, net income reinvested. Period 1.1.92 to 2.1.92



is lowest level in 23 years. It could fall further, with the authorities continuing to exercise stringent fiscal and monetary policies.

The lower the inflation rate, the lower the nominal returns earned for policyholders. Of course, as an industry, we shall strive to maintain excellent levels of real return. Nevertheless, we shall have to educate policyholders to understand that their actual nominal payouts may turn out to be less than was expected when inflation was high.

In a lower inflation environment, we can expect premiums to grow at a lower rate. In turn, of course, fee increases will be depressed. The result will have to be increased management vigilance to ensure continued profitability.

Another challenge lies in the industry's high level of penetration in the South African market, to which I referred

While this is, on the one hand, a tribute to effectiveness of our industry, and a reflection of our environment, it also points to the real possibility of market saturation - at least in our traditional markets. Industry growth is accordingly likely to come from so-called emerging markets. And it also points to the very real need for us to look further afield, to markets beyond South Africa's borders.

We're also experiencing growing competition from players in other sectors. Add to this the consumer trend towards cross-buying of products from different suppliers, and we face a far more complex competitive future.

So while economic growth offers opportunities, it must be tempered with the realisation that success will depend on our ability to compete, our willingness to educate our clients, and on our innovativeness when it comes to developing appropriate products for all sectors of the South African

And we shall have to look further afield. South Africa is no longer our ovster.

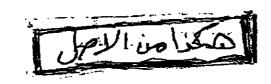
SPIRA: South Africa is in the throes of dismantling exchange controls. How will this impact on the life assurance industry?

LEVETT: Historically, South Africans have had three choices as to where to place their money - South African deposit-taking institutions, life offices or unit trusts. All invest only in South African assets. In an exchange control-free world, people will be given many new options

The industry will need to respond with products and services which meet the asset diversification needs of local clients. We will need to compete for their business with hundreds of sophisticated international operators. We can also expect an increasing number of overseas investors operating in South African markets and increased investment flows in both

We can expect the arrival of significant foreign competitors, whether independently or in alliance with other local players. They will bring with them considerable experience and new ideas and we will need to counter them with our experience of, and extensive penetration into local markets. In this context, the life industry's strong distribution channels are a formidable barrier to incoming competition.

We will also have increasing access to the potential of overseas markets. I believe our industry has the potential to compete with the best in the world,



Interview with Derek Keys: by Philip Gawith

### vernment needs time

The former finance minister is now chairman of Billiton International

Gawith: How do you mark the Mandela government's score

Keys: I think they are doing very well, but what isn't generally perceived is that everything important they are doing will take a generation to do, if they are doing it properly. That applies to organisational things like turning the police from an instrument of oppression to a community aid, and to material things, like housing and health. I think particularly people outside South Africa. who don't know the country very well, are disappointed at what looks to them like a very slow rate of progress. But I don't think the voters are, and I think the latest election results show what I have always tried to tell people here, and that is that the electorate is savvy and patient. Is there a single outstanding

priority for the government? The thing that is least addressed is some kind of direct remedy for the unemployment level. You can have much more rapid economic **a**owth than we are having for a very long time without fundamentally changing the unemployment percentage ~ because of the rate of natural increase, and because the figure from which you start is so high. The market isn't going to address that problem and solve that. So all the right things they [the government] are doing needs to be supplemented by a programme of direct action, and it is fundamentally aimed at unskilled

Is the South African challenge all about getting from 3 per cent

annual growth to 6 per cent? It can certainly get from 3 per cent to 5 per cent, but my point is that even 6 per cent doesn't address this core problem, and the RDP (Reconstruction and Development Programme), as it is constituted at present, doesn't attack that problem either. The way in which you get to that 6 per

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cent is by raising the level of wasn't a huge catch-up gap saving and investment, and which had to be filled. The through productivity gains.

The problem is that the productivity gains destroy jobs, so that while you create some jobs with your net new investment, you are destroying others with your productivity gains, which means that your unemployment problem is chronic in relation to economic growth calculations, and requires some direct action How investor friendly is the

South African environment? I don't think you can assess the question of either tax rates or incentives as a general

places that were short-changed in that period by the economy were really the social investment areas, like housing. Are you surprised that foreign investors have not comm large capital projects?

Why would you put up a plant in an area that wasn't in one of the great trading blocs? If you were a worldwide business, why would you establish a plant in South Africa? Of all countries, it is the remotest from a large pool of spending power. It is nice that it is in the same time zone as Europe and it is nice that people speak



Derek Keys: it needs a generation to make changes

probably paying a tax rate of English and it has a good legal 35 per cent - that doesn't comsystem and strong financial infrastructure - that's all pare unfavourably with the tax super. But in the end you have regime in other countries. As far as incentives go, I rather to sell your product. South Africa has to increase doubt whether another s37(e) its own savings rate to the Inow defunct incentive scheme. Which was the cata-

point where it can generate a lyst for large capital projects level of investment from its such as Columbus and Alusaf] own savings which will allow would produce more. I just it to increase its income. The don't think it would be terribly biggest thing the government can do is correct its own defieffective at present. What you cit. If they manage to keep the want to do is use the money you would be giving away in level of government consumpthose sorts of tax incentives in tion in real terms where it is, industry schemes aimed at the deficit will disappear. world competitiveness. How big an obstacle is exchange What is your assessment of the control to the globalisation of

extent of foreign truestment? South African companies? My direct experience of I think it's just gone back to exchange control is that a reabeing normal. The economy sonable case gets a positive kept going in a very remarkable way during the whole answer. I don't think there are sanctions period. It's not like companies with a unique comeastern Europe where you find petence which, given a larger field for their activities, would there are huge gaps. There

just blossom like a rose. I think that is just a romantic idea. I think in a number of respects South African businesses have a lot to learn in the much more competitive atmosphere, and they will be learning that at home as the tariff levels come down - they don't have to go abroad to go through that

learning curve. I don't think, though, that South African business is that flabby. I think it is quite taut, but it operates like husiness operates anywhere - it doesn't set out to solve problems that it isn't immediately facing. What progress has been made with black economic empower-

I think there is impressive progress being made in old industries, particularly up to the middle management level - I'm thinking now particularly of the mines. There is a certain spicing of the top structure, which we all know about. and there is this big intervening area where the progress is slow and I think invariably has to be slow. Gavin Relly (former chairman of Anglo American) said years ago that it takes 18 years to make a mine manager It has nothing to do with col-our, it has to do with the areas of experience he has to master. What is your response to those who worry about the succession to President Mandela?

I refer them to an answer Mr Mandela himself made when asked that question on Australian TV. He reminded his interviewer that it had been his colleagues who had successfully fought to bring down apartheld, while he had merely sat back in jail! What is the main risk to the

cautiously optimistic scenario for South Africa? If the long-term nature of the problems isn't sufficiently appreciated, and the need for direct action on the unemployed, unskilled males isn't appreciated, there could then be a risk of the baby - of reli-ance on the market - being

thrown out with the bath water, and people turning to radically different solutions. I see the need now for a mixed approach of direct action together with market sensitiv■ Foreign investment: by Philip Gawith

### US leads the charge back

The best evidence of the market's potential is that many companies have returned

"Encouraging, but far from overwhelming," could serve as an assessment for the extent of foreign investment seen in South Africa since the Mandela government took over.

There has been a steady stream of foreign companies establishing a presence, some very high-level trade delegations - including visits from the UK German and Malaysian prime ministers - many enthusiastic words about the potential, but no announcements of large projects.

This was pretty much to be expected. New entrants were always likely to commit the minimum amount of capital to the country until they were convinced that the political settlement was durable, and had established the extent of the market for their products.

Against that backdrop, and the reality that there is still a residual scepticism among foreigners about South Africa's ability to pull it off, the trends

have been very positive. Much as expected, US companies have made most of the running. They had left in the largest numbers during the sanctions period of the late 80s the total number of US companies with direct investment in South Africa fell from around 300 at its peak to around 100 in 1991 - and these same companies have led the charge back.

Less predictable was that the US would attach such importance to the market. The appointment of an ambassadorranking minister counsellor, responsible for commercial affairs, was as strong a signal of commercial diplomacy as Ron Brown, the US commerce

secretary, could send. While the US clearly sees considerable economic potential in South Africa, the appointed person, Millard Arnold, makes clear that they have greater ambitions. They do not only wish to help US business, they are "primarily looking to encourage black eco-

nomic empowerment". And there is a more ambitious political goal. Says Mr Arnold: "This relationship will affect the way the US looks at Africa. It will arrest the view of hopelessness and negativity. The South African voice will make It more difficult for the world to ignore the continent."

Mr Arnold is very optimistic about South Africa. He praises the politicians and believes the crime problem is manageable. What US companies like, he says, "Is that the country feels like you can do business. This could be part of the States. You feel at home - people speak the same language, offices look similar, there are blacks and whites. Most important of all. businesses think they can

make money out here." The fact that most of the companies that left have now returned must be the best evidence of the market's potential. Managers of multinationals based in South Africa confirm that their profits compare favourably with those achieved in other markets.

Mr Arnold does add, though that it has not all been plain sailing. He acknowledges that the price US companies are paying for their long absence is that they have yet to penetrate the "fabric of society" to form the sort of trusting relation ships necessary for good busi-

There is anecdotal support for this view. AT&T is one company singled out for having ruffled feathers in high places by being insensitive in the way it throws its weight around Kodak is also said to have encountered resistance from former clients.

According to the Washington-based investor Responsibility Research Centre, the number of US companies with direct investment or employees in South Africa rose by 29 per cent, to 206 in the year following the first democratic elections. Bill Mallory, president of the American Chamber of Commerce in South Africa. says US companies in South Africa can be divided into three categories - those returning (such as Ford and IBM), those coming for the first time (including AT&T, McDonalds, Levi Strauss and Bechtel) and those which never left, such as his own company. ingersoll Rand.

Companies in the financial

services, communications and information technology sectors have led the way back, while food and hotels have been other active sectors. Pillsbury, Heinz and RJR Nabisco have all established links, while the large hotel chains - Hyatt, Hilton, Inter-Continental and Sheraton - are either involved in projects, or looking for sites. While the US has made the

running, there have been some other interesting trends. Around 18 Malaysian companies, for example, have invested about Ribn in the country, and there is also an Indian presence. United Breweries (of India) has invested in the black-owned brewer. National Sorghum Breweries. India was one of the earliest countries to sever ties with South Africa.

Foreign visitors are struck by several features of the

#### The investment trends have been very positive

South African economy, First, unlike in eastern Europe. China and Russia, there are no big gaps to be filled. It is not simply a question of walking in and setting up shop unop-posed. Inevitably, there is someone there already. Second, foreigners are put off by the amount of "vertical integration" they encounter - where the same group is involved in all stages of the supply chain from the raw material through to the delivery of the finished good. Companies can find themselves in the situation where they are dependent in

some way on their competitor. The shortage of skilled labour is also a feature, with companies often required to do a lot of training. Rainer Hagemann, managing director of BMW (SA), says that they spend around three times the national average on training, but warns that with increased

competition squeezing margins, this may not be sustain-

More generally, Mr Hagemann says the performance of government departments is uneven. While some, like finance and trade and industry, perform to a first world standard, others have a third world flavour. He laments that in areas such as health and education, there seems always to be a "levelling of the playing

fields at the lowest standards". There is also a misconception that South African productivity is too poor for it to serve as a base for exporting to other markets. In the case of BMW, it used to look at its South African plant purely as a vehicle for serving the local says they are now "working very diligently on being world competitive". While South African productivity lags that in Germany by a factor of 10 -80 cars a day against 800 -South Africa actually comes out ahead when cost per car is considered. He says direct comparison is also unfair in that German plants enjoy much

higher levels of automation. Mr Mallory, of Ingersoll Rand, says the lesson of his company's experience is that "if you have a niche product, and the manufacturing technology, you can be competitive in South Africa". His company produces a pump which can be landed in New York more cheaply than the same product produced in their Athens. Pennsylvania, plant.

Other successful operations include the crank shafts produced by Atlantis Diesel, and exported to the US. and the leather trim in BMWs. with 70-80 per cent of the worldwide supply coming from South Africa.

While the government gets a generally favourable press from foreign companies, there are still some grumbles. One senior manager says: "The goverment has shown itself to be inexperienced and in the hands of lots of advisers." There is also widespread agreement. among both domestic and foreign companies, that the goverment has failed to get to grips

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have invested in an iron-ore harbour in China, both of which will earn much-needed foreign exchange. They purchased Titanium deposits in South Africa and for the first time will be manufacturing stainless steel, in addition to many steel-related products for the building industry.

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tpe Town is one of South Africa's main tourist attractions and is making a bid for the 2004 Olympics

Tourism: by Scheherazade Daneshkhu

### ch new seam opens up

South Africa is becoming one of the world's most popular tourist destinations

When gold and diamonds were discovered in South Africa during the nineteenth century, people from many other lands were attracted to its shores. Today, the government hopes that South Africa will once again be a magnet for visitors from abroad, but as tourists

rather than gold-diggers.

Tourism is South Africa's fourth largest foreign exchange earner generating R7bn last year, but Mavuso Msimang, executive director of the South African Tourism Board, says the government's aim is for tourism to overtake the mining industry, currently the largest contributor, within four years.

Last year 3.7m. people arrived in South Africa from abroad, an 18 per cent increase on the previous year, making South Africa the second most popular tourist destination on the African continent after

The tourism board expects 4.2m visitors this year, a 14 per cent increase on 1994, a figure that has been bolstered by the staging of the Rugby World

R10.5b1 NORTH WEST R103,9bn GAUTENG R23.Sbn R5.9bn NORTHERN CAP R17.600 EASTERN CAP

Cup in May. Dawle de Villiers, environment, wants to see

the end of 1996 and to 9m by

The sharp growth of the industry began five years ago when sanctions against South Africa were gradually lifted after the release from prison of Mr Nelson Mandela, leader of the African National Congress. There is much lost ground to

be made up, however. Despite the growth in visitor numbers, tourism contributed 3 per cent to the gross national product last year, well below the world average of 10 per cent. Less than 4 per cent of the workforce is employed in tourism, compared with a world average of 7 per cent.

With almost half the adult population out of work, the government sees job creation as the main benefit. Every 30 new tourists are estimated to create one direct and two indirect lobs.

The industry is also seen as a potential contributor to the government's reconstruction and development programme. earning valuable foreign exchange and stimulating private sector investment in infrastructure services such as roads, water and electricity

However, the industry's growth is threatened by a numer of factors, of which violence heads the list.

Political violence in the province of KwaZulu Natal and crime in central Johannesburg have increased in recent months and the government has responded by laying plans for a special police unit to combat crime against tourists.

There are signs, too, that the country's infrastructure may not be able to cope with increased demand unless there is considerable investment to expand facilities.

Johannesburg international airport is the gateway to the country, yet despite a recent upgrading, it is still small and lacks gate departure lounges.

Cape Town is one of the main tourist attractions and is making a bid for the 2004 Olympics. Gordon Oliver, chief executive of the Cape Tourism Authority admits, however, that Cape Town's airport was an "embarrassment" until eight months ago when services were substantially improved. It is scheduled to

have a new international ter-

minal within the next few years as well as a new confer-There is also considerable

room for improvement in the provision of good quality ser-vices. Studies of the lessons of the Rugby World Cup prepared for the South African tourism board found that although tourists rated service at restaurants, hotels and car hire companies as good, they thought service at fast food outlets was poor, and were unimpressed by public transport and taxis. There is also an acute shortage of luxury coaches.

Mr Msimang says that one of the greatest challenges is that of promoting a tourism culture and involving the black and Asian populations. "Unfortunately tourism is looked on by a lot of people as an elitist industry," he says. Most of the country's hotels and game lodges, for example, are owned sustainable, the large bulk of people who are left out should be brought in - not simply as providers of labour - but as investors, otherwise there will be instability."

One way of doing this, he says, would be to stimulate entrepreneurship in areas outside the traditional nature based attractions, such as townships and the Indian community in Durban, home to one of the largest Indian com-munities outside India.

Mr Ousmane N'Diaye, the World Tourism Organisation's regional representative for Africa, earlier this year tried to allay the fears of some of Africa's traditional tourist markets, such as Kenya, worried by South Africa's competitive threat.

position on the continent might take away business and international tourism from other African states, he also expected its economic power to have a positive effect on its neighbours.

These effects would include a spillover of increasing numbers of international tourists to other parts of southern Africa; increased business travel stimulated by South Africa's expanding economy; and greater travel, as a result of growing wealth, by South Africa's newly empowered

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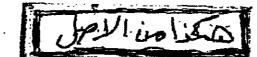
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### Mannesmann orders 13% higher

Mannesmann, the leading German engineering and telecoms group, reported a 13 per cent rise in orders to DM27.9bn (\$20bn) in the nine months ending September 30. Page 18

Thyssen raises DM1bn from telecoms sale Thyssen, the steel and engineering group which wants to become one of Germany's leading telecoms operators, said it had raised about DM1bn (\$712m) from six international financial groups through the sale of a 27 per cent stake in Thyssen Telecom, its telecoms subsidiary. Page 19

Peugeot stielves idea of US plant Peugeot-Citroën, the French automotive group, has shelved the idea of building a plant in the US, a market which it abandoned some years ago. How-ever, the formation of a partnership in the US has not been ruled out. Page 19

TV groups in Latin America satellite deal Four of the world's leading television programming and distribution groups, led by Mr Rupert Mur-doch's News Corporation, have joined forces to create a satellite service covering Latin America.

Apple and IBM close software joint venture Apple Computer and IBM have pulled the plug on one of the joint ventures they formed four years ago to counter the dominance of Microsoft and Intel in personal computer technology. Kaleida Labs, a Sili-con Valley multimedia software development company, is to close in mid-January. Page 20

Hopewell keeps faith with Bangkok project Mr Gordon Wu, managing director of Hopewell Holdings dismissed advice from Hong Kong hankers that the property and infrastructure group should quit its Bangkok mass transit project. Page 21

Obstacles on runway for airlines' tie-up Air New Zealand and Australia's Ansett Airlines may have ended months of negotiation and speculation last week, when they announced outline plans for a tie-up. But there are some big obstacles to overcome before the deal can take off. Page 21

L&G joins in Australian insurance deal Legal & General Australia, an offshoot of the UK insurance company, and SGIO Insurance, the recently privatised Western Australian-based general insurer, emerged as joint buyers of the insurance operations of the South Australian government for A\$170m (US\$127m). Page 22

Rexam shares siide on warning Shares in Rexam dropped 37p to 335p in London after the UK packaging and printing group issued its second profits warning in four months. Page 22

'Mad cow' clash splits UK meat industry The usually tight ranks of the UK meat industry have been split by a bitter dispute over charges for disposing of cattle organs that may be injected with

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Gemina

sees loss

but clings

to Ferfin

Gemina, the investment group

controlled by Italy's business

establishment, yesterday said it

was likely to lose L468bn (\$294m) this year, compared with a consolidated loss of L262bn for

the previous 12 months. But the

new management yesterday said

its plan to merge with Ferruzzi Finanziaria (Ferfin), the Italian

holding company, was still valid. Gemina said it would have to

provide a further 1.240bm capital injection for RCS, its troubled publishing and media subsid-

iary, on top of L100bn provided

A new executive team was

appointed at Gemina last month

after directors and former directors of Gemina and RCS came

under investigation from Milan

magistrates for alleged falsifica-

At the same time, Gemina

automotive group, Mediobanca

plans for the Perfin merger,

second-largest private industrial

group. But Mr Manfredo Man-

fredi, the group's new deputy

which would have cres

which is controlled by Flat, the

last month.

tion of accounts.

By Andrew Hill in Milan

A consortium led by Italgas, the Italian gas company, last night emerged shead of several other leading European energy companies as the top first-round bidder for

APV Rt, the state privatisation agency, said a consortium made up of Italgas and Snam, both Italian state-controlled compa-nies, had entered the highest bids for three of the five GDCs which are being sold off

The sales represent the greatest opportu-nity yet for Western utilities to buy into the energy sector in the former Eastern

Although price will not be the only determinant of which bids are successful,

GDCs.

efficiency and environmental improve-ments. In their bid the Italians indicated Tigaz would be their first choice. The Italian consortium bid \$172m for

Tigaz and \$93m and \$67m for two smaller APV Rt said Rubrgas, the German utility, had entered the top bid for Ddgaz with an offer of \$52m while Gaz de France, the only company to bid for all the GDCs, had

offered a top price of \$77m for Egaz, the smallest of the five. A total of 22 bids had been entered, less than anticipated, but top bids ranged from 200 per cent to 400 per cent of companies' book value, higher than had been expecof F163.3bn (\$615m) at the end of last year. Officials were delighted at the response adding that it boded well for the electricity

A total of 24 companies pre-qualified for the tenders which may be followed by up to two more rounds of bidding.

European companies, several of which have developed close ties with the local energy industry since 1989, dominated the bidding. No bids were entered by US companies, which have less of a local presence, although several US companies

including Amoco and Tenneco pre-quali-

divisions By Jenny Luceby in London

Mitsubishi Chemical, Japan's largest chemicals company, is hiving off its plastics business into a Y170bn (\$1.7bn) joint ven-ture with Tonen Chemical, a subsidiary of Tonen, the Japanese oil refiner.

The move marks the latest step in a restructuring of Japan's petrochemicals sector, which has suffered from overcapacity, weak domestic demand and high costs. The joint venture will produce the two most common bulk plastics, polyethylene and polypro-

and electronics industries and for packaging.
Mitsubishi and Tonen's combined annual production will be 906,000 tonnes of polyethylene and 645,000 tonnes of polypro-pylene, equivalent to about 3 per cent of global capacity.

pylene, which are used in the car

In Europe, only Montell, the joint venture between Shell and Montedison, and Borealis, formed by Neste and Statoil, are bigger producers of those plas-

Mitsubishi hoped the joint ven-ture would lift the combined plastics sales of Mitsubishi and Tonen to more than the existing Y170bn a year. It also expected that the new venture would "drastically cut costs by streamlining the two companies' sales activities".

The main problem for Japa-nese plastics producers has been the loss of their protected domestic market, as car and electronics manufacturers have moved to alternative sites. To compete for this business overseas, Japanese plastics manufacturers have come up against low-cost producers of South Korea and Taiwan, creating what Mitsubishi described as "severe competition". This has been particularly pronounced for polypropylene and polyethylene, prompting Showa Denko and Nippon Petronesses in February this year, and Mitsui Petrochemical and Ube to do the same in April. Analysts suggest further consolidation

will follow in the industry. Mitsubishi Chemical has only moved into profits in the past year, following its formation through the merger of Mitsubi-shi Petrochemical and Mitsubishi Kasei last October.

The new venture will begin operations by the middle of the year. It will also sell polyethylene for Nippon Unicar, a joint venture between Tonen and Union Carbide of the US.

### Italgas takes lead in Hungary sale

Hungary's regional gas distribution com-panies (GDCs).

as part of the country's energy privatisa-

Tenders for 50 per cent plus one vote stakes in each of the five GDC companies

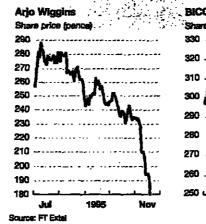
stakes in 14 electricity companies are due by November 30.

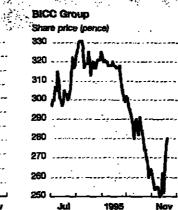
the outcome of the first round puts the Italians in a strong position.
Under the tender regulations, bidders may either acquire Tigaz, the largest of the five companies, or two of the other

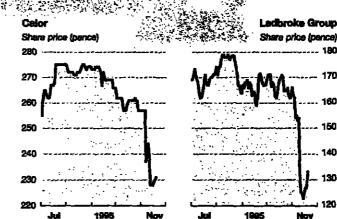
They must also have an acceptable business plan covering investment in expan-

Philip Coggan looks at falling corporate expectations in the UK









# expectations for 1995 profits.

company to issue a profits warning yesterday, on the back of weak demand and destocking by chairman, said the investment company could still play a cen-tral role in bringing together Ferfin, Montedison, the induscustomers. The market could have seen it coming; in the same sector, Arlo Wiggins Appleton trial holding company Ferfin controls, and Fiat's chemicals and KNP, the Dutch group, have issued similar warnings.

Destocking seems to be a par-ticular problem in the paper subsidiaries. "[The Gemina results] have not dented the validity of the SuperGemina operation," he said. The SuperGemina plan was announced in September, but Gemina and its backers in Italian big business quickly came under attack from small share-

holders and market authorities for their failure to provide sufficient information about the worsening financial situation. Some analysts questioned the industrial rationale of the proposed deal.

Italian bankers suggested last week that SuperGemina's negative impact on the stock market could have deterred Italian retail investors from reserving shares in the latest big privatisation the sale of shares in Eni, the state-owned energy and chemi-

cals group, which begins today. Gemina's problems stem from the crisis at RCS, compounded by a L229bn write-off of loans to the Fochi industrial group. RCS, which owns the Rizzoli publishing house and the Cor-riere della Sera newspaper and periodicals group, lost L583bn in the eight months to the end of August and is expected to lose

about L590bn in the full year. Mr Francesco Varcasia, Gemina's new chief executive, said Gemins would soon launch legal action against former RCS managers "at the highest level". But he added that the last four months of the year were expected to show a reversal of RCS

#### The UK economy is slowing. While many companies are still thriving, a the merchant bank, and their corporate allies - had to shelve number are being forced to make the stock market scale back its Rexam, the packag printing group, was the latest

industry, where prices rose sharply in 1994 and early 1996. Customers built up stocks on the expectation that prices would continue to rise; now that prices have fallen again, they are using up the surplus. It is a common problem. Mr

Richard Jeffrey, Charterhouse group economist, says "there is some evidence of involuntary stock-building across the UK economy. The gross domestic product figures released yester-day show a significant contribution from stocks." However, Mr Jeffrey warns the figures need to be treated with caution because the stocks number is used by statisticians to reconcile the output and expenditure measures of GDP. Stockbuilding occurs when manufacturers overestimate the growth of final demand. UK companies could be forgiven for doing so; GDP growth has slowed from 4 per cent in 1995 to just

over 2 per cent. Companies have also been caught out by a slowdown in demand across Europe. Delta, the cables and engineering group, warned last week that destocking had caused a fall in demand for plumbing products in Germany.

The doubling in US short-term interest rates in 1994, and the accompanying sharp increase in worldwide bond yields, seem to have slowed growth across the industrialised world. ICL the chemicals group, recently said

### British companies take stock as demand falters

and the US had cut demand for chemical raw materials and Sir Ronald Hampel, chairman, fore-cast static demand for chemicals until at least the end of 1995.

Other international groups have warned of slowing demand, notably BICC, the cables group, which warned of a downturn in Australia. North America and Germany. All this is prompting analysts

to lower their estimates for 1995 earnings growth. Mr George Hodgson, UK equity strategist at SBC Warburg, says the group has reduced its forecast for industrial profits growth (excluding oils) from 10.1 per cent to just over 9 per cent.

Some people hope the fall in bond yields this year and cuts in interest rates in the US, Germany and Japan will revive worldwide growth in 1996. Tax cuts and the possibility of a base rate reduction may do the trick for the domestic economy.

But, in the meantime, individual UK sectors are struggling in the face of weak demand. As yesterday's building society lending numbers illustrated, the housing market is flat on its back. The problem can be magnified

if weak markets are combined with soaring raw materials prices, as was the case with Epwin, the PVC door and window manufacturer. The Devon-based company warned last week that prices for PVC polymers had risen by 50 per cent in 18 months, but it was unable to pass on these costs to customers because of intense competition and sluggish demand.

The volatility of raw materials prices has been a problem. SBC Warburg's Mr Hodgson says "commodity prices were roofing it through to September 1994 and since then, annual rates of comeconomic slowdown in Europe modity inflation have tended to

be negative. Companies have struggled to cope with the effect on inventories." Some profits warnings, of course, owe more to one-off

events such as acts of God, or the finger of fate. In the latter category must fall Ladbroke, which warned that sales of National Lottery tickets were adversely affecting its betting business; in the former, one could cite Calor, which said that warm autumn

> weather had hit gas sales. However, the news is far from universally gloomy. Some companies are reporting better-thanexpected profits and Mr Robert

Buckland, UK strategist at James Capel, points out that good figures from hig groups such as Glazo and BAT Industries, outweighs poor results from a host of tiddlers. Mr Buckland believes that, in

the face of weak demand, corporate UK can continue to squeeze stronger profits growth out of the same level of turnover - by controlling costs. But companies, such as Rexam, which have depended on rising sales to keep profits moving ahead, are vulnerable, he cautions. There could be more profit warnings ahead.

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### **C&W** row threatens US deals

By Alan Cane in London

Non-executive directors of Cable and Wireless, the UK-based telecommunications group, were last night still attempting to find a solution to an acrimonious dispute between its chairman and chief executive which is threatening to destabilise the company.

There are fears that if the clash between Lord Young, chairman, and Mr James Ross, chief executive, is not resolved quickly, significant deals in the US and Asia will be at risk. They include proposals that Nynex and Pactal, two North American local telephone operators take a stake in Cable & Wireless Inc., the North American subsidiary and one of the larger of the second-rank long-haul operators in the US.

The idea would be to capitalise on the changing regulatory position in the US market, where long-hanl operators will be allowed to compete in local markets and the regional operating companies will be allowed into the long-haul business.

A second deal is thought to involve a strategic alliance between Mercury Communications, the C&W subsidiary that is the chief competitor to British Telecommunications in the UK and Nynex Cablecom, a large UK cable television and telephone

The significance of a deal with Nynex lies in the fact that it is the New York local operator and therefore strategically placed for the important and lucrative London-New York routes.

executive directors will be able to present a solution today. If they cannot, it could mean calling a full board meeting to resolve the dispute between the two executives which turns on the question of who runs C&W.

Institutional shareholders expressed annoyance with the public dispute, but said they would not interfere at this stage. "Our first line of defence is the non-executive directors," one

"That is the way things should operate under Cadbury (a UK corporate governance report). It is getting back to personalities and that is pretty unsatisfactory. There should not be this huge focus on personalities."

Lord Young's fate, Page 22

#### EUROPEAN NEWS DIGEST

### Amper upbeat over accord with Siemens

Amper, the Spanish electronics group, said it expected to ratify a wide-ranging agreement with Stemens of Germany before the year-end, adding that negotiations between the two companies were going well. Amper shares closed down Ptal45, or 10 per cent, at Pta1,810, off a low of Pta1,305, on heavy turnover of 500,000 shares, with dealers citing rumours that its proposed accord with Siemens may be in trouble.

In July, the two companies signed a pre-accord whereby Siemens would take a majority stake in both the Spanish company's Amper Telematica and Amper Elasa units. As part of the agreement, a new company, Siemens Telecommunicaciones Espana, would be created which would

group all the German company's Spanish telecoms assets, except those related to mobile phones, and the Spanish group's Amper Telematica unit's activities. "The possibility is remote that an agreement will not be reached and the probability is above 90 per cent," Amper said.

AFX News, Madria

#### Générale des Eaux sales ahead

Générale des Eaux, the French water and waste management group, posted sales of FFr117.6bn (\$24.24bn) in the first nine nonths, up 5.8 per cent. For the full year, the company reiterated its previous forecast of a rise in sales of between 5 per cent and 6 per cent, on a constant structure and exchange

In the first nine months, the company said sales in France were FFr80.7bn, up 3.7 per cent from a year earlier. Broken down by sectors, water distribution sales rose by 5.9 per cent. property revenue declined, construction and civil engineering emained stable and revenue from its mobile phone operations rose sharply. Abroad, sales were FFr36.9bn, up 16.7 per cent on a comparable structure and exchange rate basis. Water distribution and electricity distribution in the US performed particularly well, it said.

■ Chargeurs, the French industrial group, said sales rose 17 per cent from FF17.2hn to FF18.45bn in the nine months to September. In the three months to September, sales rose 16 per cent to FFr2.59bn. AFX News, Paris

■ Euro RSCG Worldwide, the French communications group said sales in the nine months to September were FFr18.6bn, unchanged from a year earlier. Sales on a comparable structure and exchange rate basis were 3.8 per cent higher, including a 0.8 per cent rise in France and a 5.8 per cent

■ Mr Juerg Benz, treasurer of SMH, the Swiss watch group, said he expected the company's 1995 net profit to fall from 1994's SFr315m to SFr270m (\$239m). "We expect to see 1995 net profit about 15 per cent less than the year earlier," Mr Benz said in an interview with the SonntagsZeitung newspaper.

AFX News, Zurich

#### INTERNATIONAL COMPANIES AND FINANCE

### Telecoms growth sparks advance at Mannesmann

By Michael Lindemann in Bonn DM21bn a year earlier - again

Mannesmann, the leading German engineering and telecommunications group, yesterday reported a 13 per cent rise in new orders to DM27.9bn (\$19.86bn) in the nine months ended September 30, and said its profits had "improved" compared with the same period a vear earlier due to "considerable" growth in its telecoms

The group also reported "improvements" in engineer-ing activities, which range from cranes to the Leopard 2 battle tank.

Sales rose 11 per cent in the nine months to DM23.5bn, from

driven by strong growth in the telecoms business, which lifted turnover 58 per cent to DM1.9bn. Mannesmann said its D2 mobile phone network now had more than 1.3m clients, including 168,000 new custom-

Mannesmann does not report profits for the nine-month period, but had registered a DM141m net profit for the first six months of 1995, compared with a loss of DM27m in the first half of 1994.

ers in the third quarter.

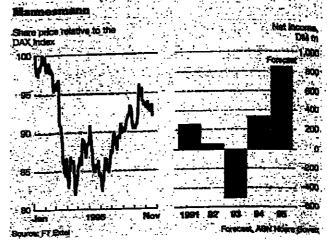
The Düsseldorf-based group made no comment on the outlook for the rest of the year. When it reported its six-month figures in August, the group said it expected "favourable" growth for the full year and that sales and new orders would exceed last year's

At that time Mannesmann said prospects for capital expenditure worldwide remained good and this was likely to benefit the group's considerable engineering and plant activities.

However, Mannesmann yesterday said the strength of the D-Mark against the dollar and other European currencies continued to be a brake on sales and earnings. To counter this it is to increase its purchases in so-called soft-currency countries. It also noted that earnings from its fast growing telecoms activities were all in D-Marks.

The automotive components division, which includes VDO and Fichtel & Sachs, reported an unspecified fall in profits after the sale to a Dutch company of the Herkules, the bicycle business which last year generated sales of DM80m.

Hartmann & Braum, the lossmaking electronics business sold last month to Elsag Balley, the US-quoted process automation group, reported a 5 per cent fall in sales. The group's trading division, built around steel trading reported a 19 per cent rise in new orders



### Finnish pulp and paper groups link

The rapid consolidation of the Finnish forestry industry continued yesterday when Metsä-Serla, one of the country's leading pulp and paper groups, said it was buying stakes in parts of the privately-owned Myllykoski group for FM1.6bn

The deal gives Metsä-Seria a 50 per cent stake in Myllykoski's German subsidiary, Albbruck, and a 35 per cent hold-ing in Myllykoski Paper, a new grouping of Myllykoski's Finnish paper mills.

The collaboration creates Europe's third-largest producer of magazine papers and pro-vides a base for the two groups to expand their European printing paper businesses. Analysts believe the tle-up

will eventually lead to a full-scale merger, creating a third force in the Finnish forestry sector after this year's mergers joining Repola (and its United Paper Mills subsidiary)

All these securities have been sold. This announcement appears as a matter of record only.

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to Kymmene, and Enso-Guizeit to Veitsiluoto.

It also represents a success for Metsä-Serla, which had been side-lined by the mergers and frustrated in previous efforts to expand. For the first nine months of this year, Myllykoski Paper had pro-forma profits of FM151m on turnover of FM1.4bn while Albbruck produced a FM125m operating profit on turnover of FM835m.

One immediate consequence of the deal may be a decision to cancel Myllykoski's previously-announced plans to build a coated magazine paper plant with a capacity of 300,000 tonnes per year at Albbruck. Metsä-Serla suggested vesterday it favoured expansion

through acquisition. A full merger of Metsa-Serla and Myllykoski would create a group with annual turnover of about FM19bn, against FM45bn for the forestry businesses of UPM-Kymmene - which will be Europe's largest pulp and paper group - and FM30hn for Enso-Gutzelt/Veitsiluoto.

November 1995

### Minorco buys German quarry group

Minorco, the international natural resources group, has paid DM61.5m (\$43.8m) for Kies-und Natursteinbetriebe (KNL), an east German company quarrying sand, gravel

The company declined to give details of KNL's trading profits or sales.

acquisition would not be earnings dilutive. The acquisition would strengthen the group's foothold in and around Leipzig, the second largest construction site in Europe after Berlin.

It was also part of the group's strategy of investing in niche operations in the region, Mr Nick von Schirnding, the group's investor relations manager, said yesterday.

The German electricity utili-

ties have also purchased infor-

mation memoranda for MVM

companies, as have some 20

other international companies

including Electricité de France,

Southern Electric of the US

and UK companies PowerGen,

Eastern Group, Midlands Elec-

The only company that is

not expected to attract several

bids is the core MVM company,

The Hungarian authorities

due to its nuclear component.

tric and National Power.

operations in east Germany, where it is the largest sand and graval producer.

KNL, which had 100 employees on its books, was placed in receivership last year following the collapse of Mr Jürgen Schneider's building

Its sale coincides with the end of the building boom in east Germany.

Deutsche Bank Research recently reported that real

tor last autumn with a view to

holding tenders in the first half

of this year. It included privati-

sation revenues of Ft150bn in

However, after months of

uncertainty, it was forced to

scale back its plans in late-

June due to disputes within

the government and a storm of

opposition from trade unions,

the energy industry and the

electorate. It did not

re-appoint Schroders, the UK

merchant bank which drew up

the 1995 budget.

growth in the region's construction sector, including residential, commercial and public, would fall from 21 per cent in 1994 to 10.2 per cent this year, and to 7 per cent in

Minorco's industrial minerals division worldwide reported the first six months of this year, with its European operations accounting for

on November 30. Bidders add

that they have too short a

period - 45 days - to evaluate

companies and prepare offers.

"Neither we nor our very

experienced advisers have ever

seen a privatisation process

quite like this one." one exas-

perated western energy execu-

tive says. He adds that from

the information released so far,

the utility his company is

interested in bidding for could

be worth anywhere between.

"\$200m or minus \$100m".

### Tight timescale for energy offerings

Virginia Marsh on the privatisation of Hungary's utility companies

The most ambitious attempt to date at utility privatisation in the former Soviet bloc got under way yesterday with the deadline for bids for majority stakes in Hungary's five regional gas distribution com-panies (GDCs). A second tender for electricity utility MVM, the country's second-largest company, closes in nine days.

The sales represent the greatest opportunity to date for western utilities to buy into the east European energy sector. They will be able to establish a strategic foothold in what is expected to be the continent's fastest growing region over the next decade.

On offer are stakes of 50 per cent plus one vote in the five GDCs, which together had fixed assets of Ft68.3km (\$516m) at the end of last year. APV Rt, the privatisation body, is being advised on the gas sales by N.M. Rothschild, the UK merchant bank.

MVM, which last year had evenues of Ft164.3bn and assets of Ft682.0bn, is being split up and privatised in 14

A stake of 24 per cent is being offered in the core company, which will retain the national grid and Paks, Hungary's Soviet-designed nuclear plant. Stakes of between 34 per cent and 49.7 per cent are being sold in 13 non-nuclear power generation and supply

The electricity and GDC sales have attracted interest from several of Europe's largest energy companies. British Gas, Gaz de France, Austria's OMV, and Ruhrgas, Bayern-werk, PreussenElektra and RWE of Germany participated in the 22 bids entered in yesterday's GDC tenders.

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Total sales (in curis) 515 1061 503 586 2,284 2,347 7,378

Authors (in curis) 515 1061 503 586 2,284 2,347 7,378

Employees 902 1,686 905 1,688 3,223 2,157 10,125

This sales (in curis) 515 1061 500 1,688 3,223 2,157 10,125

to four times book value for the gas companies. They hope they will get similarly high

the generation side - would require significant investment, on top of the purchase price, to bring them up to western stan-However, bids for the elec-

than for the gas groups due to considerable uncertainties on long-term regulatory and pricing issues. This has prompted fears the government will post-pone or cancel sales of companies receiving low bids as it did two years ago in an earlier attempt to sell the GDCs.

approved even more radical privatisation plans for the secthe privatisation strategy for ity sales until July.

its budget revenue targets, decided to press ahead with the sales this year, leaving itself just three months to agree on a long-term price formula and resolve many other outstanding regulatory issues in time for the publication of tender documents in October.

owever, potential investors say they have been given unclear and incomplete information, especially for MVM companies. After dozens of complaints and questions, the authorities were last week forced to issue changes and corrections to the MVM tender and are expected to make further amendments this week, just days before bids are due

Mr Tamas Suchman, Social-MVM, to advise on the electricist privatisation minister, insists APV Rt will be able to Nevertheless, the govern- meet its timetable in spite of more than 100 expected bids and negotiating the sales of 19 companies in a matter of weeks. It took the authorities seven months to negotiate the sale of one independent power

producer to PowerGen earlier

this year. Mr Lajos Bokros, finance minister, however, said in a recent interview that he did not expect revenues from the sales until "the second or third quarter of next year" due to the many problems which first needed to be resolved. Among these he listed uncertainties over energy pricing, the inclusion of the Paks nuclear plant with MVM and local government claims on utilities' assets. Hungary survey.

# eral of which - especially on

tricity companies may be lower

Part of the problem is the speed with which the tenders were organised. The govern-ment, a Socialist-led coalition.

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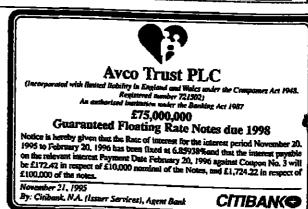
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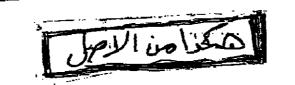
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#### INTERNATIONAL COMPANIES AND FINANCE

# mesman \* for return to US market

Pengeot-Citroën, the French car group, has temporarily shelved plans to return to the US car market, which it abandoned some years ago.

Mr Yann Delabrière, chief financial officer of the PSA holding company which controis Peugeot and Citroën, said in an interview that research had persuaded the group to drop any idea of building its own US plant.

"Our studies showed that a partnership would be the only way to proceed, if at all," he

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The possibility of collabora-tion in the US was being discossed informally at meetings with other car producers. However, the participation of another manufacturer would delay any project.

Mr Jacques Calvet, PSA's chairman, has stressed the US this year as part of the group's strategy to reduce its deped-

portion of cars sold outside Europe from 13 per cent to 25 per cent early in the next century. It is already active in Asia and South America.

Mr Calvet has indicated that a convincing presence in the US market could be created only by having several models and producing locally to avoid exchange rate risks. That prompted a series of studies which were due to reach a ourclusion this year.

In spite of original enthusiasm for building an independent US factory, the abandon-ment of the idea is not surprising, in view of the cost and Mr Calvet's recent emphasis on lowering borrowings.
The change of tack comes as

Peugeot is gearing up to assault the European market with its upper-midrange 406 France and Germany last

month, covers a crucial segment in which Pengeot has traditionally been strong. The new car will have to be PSA wants to double the pro- at least as successful as its Xantia.

brière said that most of the 0.7 per cent fall in PSA's European market share in the first nine months of this year was attrib-utable to waning demand for the 405 ahead of its replace-

He said that the new car should boost profits, in spite of weak demand for new cars in Extrope this year and the limited growth forecasts for

PSA expects to sell more than 200,000 units of the 406 next year, at least matching the sales peak of its predeces-sor, which took up to 18 per cent of sales in the sector in However, margins should be higher than on the 405 because

the new model was 10 per cent

cheaper to manufacture, Mr Delabrière said. The 406 has received plaudits from the European motoring press and should consolidate PSA's position in the family car sector, where it is already

### Peugeot shelves its plans | Sweden's car industry slips into reverse

Third-quarter downturn has plunged the sector back into the gloom, reports Hugh Carnegy

nst when it seemed that long-standing worries about the viability of Sweden's car industry had been dispelled by a profits surge at Volvo and Saab, the country's two manufacturers have posted gloomy results for the

The worst surprise came from Saab Automobile, managed and half-owned since 1989 by General Motors of the US. Saab announced a thirdquarter loss of SKr322m (\$49m), plunging the company to a deficit of SKr127m for the first nine months and snuffing out the glow of optimism it had generated in 1994, when it posted a 12-month profit for

the first time in six years. Saab's Swedish half-owner, investor, the Wallenberg industrial empire's main holding company, acknowledged the extent of its concern, saying it was discussing Saab's future

Developing a successor to the Volvo 968 (above) is proving an ex-

Volvo Car Corporation remained in profit, but its ninemonth operating profits slid 7 286,500 cars. per cent to SKr1.93bn. in the third quarter, the operating margin shrank to 1.7 per cent,

far below Volvo's own targets. In a clear sign of stress within the organisation, Volvo announced last week that Mr Tomas Svensk, the car company's marketing chief appointed less than a year ago, had left the company - the latest in a series of senior management

Yesterday, Volvo Car Corporation announced a reorganisation of its management structure to put more empha-sis on marketing and profit-

The reverses at both Saab and Volvo came in spite of a significant increase in sales, both by value and numbers of care cold. Such cold 26,500 care. in the first nine months. 16 per

period last year. Volvo pushed its unit sales up 11 per cent to

All this raises the ominous question of how secure are the long-term prospects for both operations if they cannot pro-duce stronger results at a time when they are selling more posed to have been answered by big restructurings carried out over the past five years in response to earlier heavy

Saab has undergone a deep transformation since GM bought into the company. Today's workforce of less than 8,000 is now producing a higher output than 15,000 employees chieved in 1990.

Volvo entered an alliance with France's Renault in 1990. then backed out of a full merger in 1993. But the car company, like Saab, underwent big changes to improve productivity, yet remains the

operating profit/(loss)

SKr m

weak link in the Volvo group. So what is going wrong? Volvo and Saab blamed the recent strengthening of the Swedish krona for much of their troubles. With their big-gest markets in the US and the UK, they have been hit by the rise of the krona against the dollar and sterling. At the same time, they suffer from the sustained strength of the D-Mark, because both groups are heavy net purchasers of

But analysts say this is not the whole story. "The krona is still at a fundamentally favourable level despite its recent trend," says Mr John Lawson of DRI McGraw Hill in London. The other main factors cited by the companies are the heavy discounting of prices in their main markets (where overall sales trends are weak), high marketing costs, and high product development costs.

German parts.

t is these areas that seem to hold the key for the future. They raise the question of whether Saab and Volvo can create attractive model ranges that can command premium prices. These would compensate for the relatively high cost base that small producers inevitably carry compared with volume car

Mr Lawson believes Saab is better placed than Volvo to

achieve this. "As part of the GM group, it has access to a fertile portfolio of systems and platforms. There ought not to be anything in the production economy that prevents Saab from being profitable in the medium term," he says.
But Saab is hindered by its

narrow product range - making only the large 9000 and the mid-sized 900 models which both face herce competition in a market crowded with rivals

from BMW, Audi, Volvo, the apanese producers and others. It is developing a new 9000 model and wants to expand its range. But it cannot afford to do so without new capital com-mitments by GM and Investor.

"Saab's position in the marketplace is becoming tougher and tougher to defend," comments Mr Karl Ludvigsen, a motor industry consultant. He doubts Saab's ability to carve out a profitable GM. "It will be very difficult to build a long-term position for Saab," he says.

Mr Ludvigsen, meanwhile. reckons Volvo's post-Renault strategy of building up volumes to 500,000 cars a year against 360,000 last year, while extending its product range to encompass a broader customer span, can work.

"For all of their troubles, they have one of the best brands in the car industry." he

But Volvo's lack of a strategic partner means it carries a heavy cost burden for its size. "Volvo is in a situation where it has got to achieve a better than average success with every product it brings out in order to be competitive with rival European producers," Mr Lawson says. It is a tall order, and one that both Volvo and Saab have yet to prove they can meet.

### Thyssen nets DM1bn from disposal of telecoms stake

Thyssen, the steel and engineering group which wants to become one of Germany's leading telecoms operators, vesterday said it had raised about DMlbn (\$712m) from six international financial groups through the sale of a 27 per cent stake in Thyssen Telecom, its telecoms subsidiary. Thyssen's shares rose DM6.80

The deal values Thyssen Telecom at about DMS.50m with shares costing DM2,154 apiece. The new partners include Commerzbank, one of Germany's big three banks; West LB, the German public sector bank; a consortium headed by Westdentsche Genossenschafts-Zentralbank, ING Part Com, a subsidiary of the French Caisse de Dépôts et

By Michael Lindermann in Bonn Telecome earlier this year but to be fiercely competitive raised this to 11 per cent durbecause Deutsche Bahn has raised this to 11 per cent during the recent private place-ment, thereby becoming the largest shareholder.

Thyssen is one of five leading German connecties which is busy gathering telecoms assets and experience in order to compete with Deutsche Telekom, the state-owned operator, once the telecous monopoly falls across most of Europe in

Mr Dieter Vogel, the board nember who takes over as chief executive of the Thys group next March, said the money would be used for a variety of purposes including the purchase of a 49.9 per cent stake in DBKom, the telecoms subsidiary of Deatsche Bahn, the federal railway network. Thyssen will bid for the

DBKom stake together with Bell South, the US operator with which it has a strategic

the higgest long-distance telecoms network in Germany

mart from Deutsche Telekom. Mr Vogel said a decision would be made about offering a second tranche of Thyssen Telecom to private investors, possibly after the DBKom deal had been settled. Thyssen Telecom would be listed on the stock exchange by 1999 at the latest, although Thyssen Handelsunion, the trade and services division of Thyssen, would keep 60 per cent of the

Analysts said yesterday that Thesen appeared to have got a good price for the stakes in Thyssen Telecon.

Thyssen is still heavily dependent on its steel activities - which made up about 28 per cent of last year's DM38hn terrover - and some hear that if the steel market goes into

### Continued Stable Development in Swedbank

· The operating result SEK 2982 M Net earnings per share SEK 9.70 and return on equity 15.4 %

Kesuit (The Group)			
	jan-Sept	Jan-Sept	quarge
SEK M	1995	1994	
Net interest income	8 329	7562	+ 10%
Commission and foreign			
exchange income	1412	1743	- 19 %
Other revenue	1093	1077	+1%
Total revenue	10834	10382	+4%
Personnel expenses	3 221	3004	+7%
Other expenses	2831	2991	-5%
Total expenses	6052	5995	+1%
Result before loan			
losses	4782	4387	+9%
Loan iosses	1800	3 350	-45 %
Result after loan			
losses	2982	1 037	+ 188%
Capital gain on sale			
	_	1 578	-
of Robur	2982		+14%
Operating result	2352	£ 013	+ 14 W

Key Figures (The Group)		
	Jan - Sept	dan - Sept
<del></del>	1995	7394
Return on equity, %	15.4	7.0¹
Earning per share, SEK	9.70	355
Adjusted equity per share, SEK	71.10	58.10
Primary Capital ratio, %	7.0	5.7
Printing Calabaration %	127	11.0
Capital cover ratio, %	0.63	1.10
Loan loss level, % Provision ratio doubtful claims, %	61	68
Provision Tailo Gottoma	467	493
Total assets, SEK billion	385	3967
Lending SEK billion	1.79	1.73
I/E ratio before loan losses	1.38	. 111 <sup>3</sup>
L'E ratio after ionn losses	9760	10 217
Number of employees, Sept 30	2.40	~~ 444



# Electricity Generation Investment Opportunity In Russia

The Government of the Russian Federation is no sell 4.5 per cent of RAO ES (UNITED ENERGY SYSTEM

Of RUSSIA) - Russia's largest generator of electricity. The sale, by special auction is being undertaken by

the Russian Federal Property Fund on behalf of the Federal Covernmen

RAO ES at Russia's largest chimping by sales and second largest by revenue. It produces 70 per cent

of Russia's electricity and employs over 200,000 people.

The chapter capital of RAO ES is over 21.5 trillion rubles and the nominal share value is 500 rubles.

The minaber of shapes for sale is oper 1.9 billion making up 4.5 per cent of the shares of the company. The

ruction is already unider way and closes on 24 November 1995.

development of the capital market, and legal and regulatory reform

This is an opportunity for international investors. In the continuing progress of Russian priva-

tisation, international bidders for RAO ES shates will have equal opportunity with domestic investors.

Rossian Cish Auction Information Service E-Mail address: reseash@online.ru. Or Fax:

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#### **NOTICE OF EARLY REDEMPTION**

### Nationwide

**Nationwide Building Society** Notice to the holders of £75,000,000

Subordinated Floating Rate Notes Due 2004 (the "Notes") (Issued by Nationwide Anglia Building Society) NOTICE IS HEREBY GIVEN that, pursuant to Condition 5(b) of the Notes, the Society will redeem all outstanding Notes at their principal amount on December 22, 1995.

amount on December 22, 1995.

Payment of principal and interest will be made against surrender of the Notes and Coupons at the specified office of any of the Paying Agents listed below. Each Note should be presented for payment together with all unmatured Coupons. Such unmatured Coupons (whether or not attached thereto) shall become void and no payment shall be made in respect thereof. Notes will become void unless presented for payment within twelve years and Coupons within six years from their respective Relevant Dates, as defined in Condition 10 of the Notes. PAYING AGENTS

Morgan Guaranty Trust Company
of New York
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60 Victoria Embankment
London EC4Y 0JP

Morgan Guaranty Trust Company
of New York
Avenue des Arts 35
B-1040 Brussels

Banque Paribas Luxembourg 10A Boulevard Royal L-2093 Luxembourg

Nationwide Building Society By: Morgan Guaranty Troat Company as Principal Paying Agent

Dated: November 21, 1995

#### INTERNATIONAL COMPANIES AND FINANCE

#### **AMERICAS NEWS DIGEST**

### First Interstate rejects Wells offer

First Interstate yesterday formally rejected a revised takeover bid from Wells Fargo, even though the hostile offer for the Californian bank is worth more than a rival, agreed bid from First Bank System. In a letter to shareholders, First Interstate said a combination with First Bank would yield stronger earnings and cash flow, and would result in less credit risk

and a stronger market position.

The rejection, which had been expected, follows Wells' move last week to raise its offer from 0.625 of a share for each First Interstate share to 0.667. Wells has said it would take its offer

directly to First Interstate's shareholders. At yesterday's market price, Wells' offer was worth \$140.57 for each First Interstate share, while First Bank System's was \* Richard Waters, New York

#### Sharp rise in Goldman bonuses

Wall Street's buoyant year has led Goldman Sachs, the US investment bank, to more than double the annual bonuses it pays to employees other than partners. The bonus level still fell short of the record in 1993, however, when investment banks' profits were lifted by a surge in global bond markets. In an internal memorandum yesterday, Goldman said this

year's bonus would be equal to 20 per cent of basic salary. That compares with 8 per cent the year before and 30 per cent The higher bonuses follow a rebound in earnings at the private Wall Street partnership. Pre-tax profits of \$931m in the

first nine months of this year were two thirds higher than a

#### Wallace hits back in bid battle

Wallace Computer Services, the Chicago-based information handling group, has used strong quarterly earnings to buttress its defence against a hostile takeover bid by Canada's Moore Corporation. Wallace said yesterday that a 45 per cent advance in net earnings for the three months to October 31 "underscores the board's determination that the company's remaining independent is in the best interests of

shareholders". Net earnings rose from \$11.6m, or 52 cents a share, to \$16.8m, or 74 cents, while sales climbed 35 per cent to \$214m. However, Wallace's shares continued to trade yesterday below Moore's \$60 a share offer, or a total of \$1.4bn. One New York trader said arbitrageurs, who are estimated to own about 40 per cent of Wallace's shares, continued to support Moore, which has threatened to walk away from the deal rather than

Moore is soliciting shareholder proxies in a bid to unseat Wallace's directors and overturn Wallace's "poison pill" at the US company's annual meeting on December 8. Holders of about 73 per cent of Wallace shares have tentatively tendered their stock to Moore. Bernard Simon, Toronto

#### George Weston advances 51%

George Weston, the holding company for the Weston family's food processing and retailing and resource holdings in Canada, posted a 51 per cent gain in third-quarter net profit. However the group saw sales dip 5 per cent as a result of the disposal of the US grocery supermarket subsidiary.

Net profit was C\$52.3m (US\$38.7m), or C\$1.11 a share, against C\$34.7m, or 74 cents. a year earlier, on sales down at C\$3.66bn. compared with C\$3.85bn. Net profits for the first nine months were C\$131.2m, or C\$2.78 a share, up 83 per cent from C\$71.6m, or C\$1.52. Sales advanced from C\$9.8bn to C\$10bn.

Robert Gibbens, Montreal

### TV groups in Latin America link-up

#### By Christopher Parkes

### Four leading television programming and distribution

groups, led by Mr Rupert Murdoch's News Corporation, have joined forces to create a satellite service covering Latin America. The deal will close one of the

last significant holes in News Corp's global TV coverage, which includes the Fox Network in the US, BSkyB in the UK and Star TV in

The venture partners will

pool a potent blend of

resources including sports. soaps, film and magazine mate-Although analysis suggested

that it would be years before the deal was profitable, they also noted that it would make it difficult for any prospective

competitors to make their mark in Latin America.

The partnership's resources will include Netsat, a recent joint venture in direct-broad-Corp and Globo, the largest media company in Brazil. This will be enhanced by the

addition of Mexico-based Grupo Televisa, the biggest ming provider in the world, and TCI International, a subsidiary of Tele-Communications Inc. which is the biggest cable TV group in the US. Sports programming, pro-

vided by a recently-announced

joint venture between News Corp and TCL is likely to comprise a significant portion of the material to be beamed down when the service starts

early next year.

Apart from English-language channels in the US, TCI also Share price relative to the

supplies Spanish-language sports services in its home market and in Mexico. News Corp already had a footbold in Latin America in the form of its El Canal Fox channel, which feeds dubbed

Fox television programmes and

homes. Mr Murdoch said earlier this year that he expected to invest \$500m in the Netsat venture with Brazil's Globo, which was expected to attract 4.5m viewers within a few The new venture repre

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a substantial investment in direct-to-home satellite services, which some analysts see as the preferred route for moviders of TV and other electronic services - especially in regions with underdeveloped

PanAmSat, a private satellite operator, in which Televisa has a large minority stake and which plans to have four satellites serving Latin America by 1997, was named yesterday as a service provider to the partners.

Other participants include

### Apple and IBM close software venture

Apple Computer and IBM have quietly closed one of the joint ventures they formed four years ago as part of a broad effort to counter the dominance of Microsoft and Intel in personal computer

technology. Kaleida Labs, a Silicon Valley multimedia software devel-opment company, is to close in mid-January, IBM and Apple said. Financial details were not

establish multimedia standards for personal computers, video game machines and interactive After long delays, the ven-

at creating software that would

ture recently completed devel-opment of a multimedia pro-gramming language, called ScriptX, which will now be transferred to a development group at Apple.

Both IBM and Apple said that they planned to use the technology. The closure comes as other

aspects of the four-year old Formed as a 50-50 joint venture in 1991, Kaleida was aimed Apple Computer and Motorola

tum. Originally, the three companies agreed to develop jointly PowerPC microprocessors, which IBM and Apple would use in new compatible

However, while Apple is now using PowerPC chips in most of its Macintosh products, IBM has backed away from plans for a PowerPC personal

Recently, IBM transferred development work on PowerPC products out of its PC organisation to the IBM division that develops high-performance computer workstations.

IRM "has no plans for a high volume platform based on PowerPC", Mr Bob Stephens, head of IBM's PC business, said last week. The closure of Kaleida Labs

has raised questions about the future of Taligent, a second . IBM-Apple joint venture centred on object-oriented software technology, which enables software "components" to work together, speeding up

Hewlett-Packard became a partner in Taligent about two years ago. IBM and Apple both said they remained committed to Taligent's technology.

### Pegasus Gold details plans to boost output

#### By Kenneth Gooding, Mining Correspondent

Pegasus Gold, the North American mining company, will spend US\$300m over the next three years to lift its output by one-third to about 725,000 troy ounces in 1998, Mr Werner Nennecker, president,

In presentations to European analysts and investors, Mr Nennecker pointed out that in the past three years the entire management team and the in place a six-year, \$150m company's strategic approach revolving credit facility.

had been changed. Pegasus was on course to reach its target of producing 1m ounces a year by the turn of the cen-

Mr Phillips Baker Jr, chief financial officer, gave assurances that Pegasus would not turn to shareholders for cash to complete the expansion

Cash flow would provide between \$140m and \$160m a year. Pegasus had \$67m cash and would by the year-end put

Capital spending would peak at \$225m in 1996 before dropping to \$64m in 1997.

The company hedged some of its output to cover cash flow requirements, Mr Baker It has hedged 247,000 oz at

prices up to \$438 an oz this year, and will hedge 329,000 oz at prices up to \$485 next year and 314,000 oz at prices up to \$469 for 1997.

Mr Baker noted that the hedging covered only 9 per cent of Pegasus's total proven and probable reserves, which rida Canyon, Nevada, at \$34m.

had advanced from 4.6m oz in 1994 to 7.8m oz.

Mr Nennecker said that the expansion programme was expected to cut cash production costs from an estimated \$263 an ounce this year to \$248

Growth would come from . four projects in particular: expansion of the Mount Todd mine in Australia, at a cost of \$150m; the Pullalli project in ... Chile, at a cost of \$50m; expansion at the Zortman mine. Montana, at \$56m; and at Flo-



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TRANCHE "A"

Interest period: November 20, 1995 to May 20, 1996 (182 days) Interest payment date: May 20, 1996

Interest rate: 6.25% per am Compon amount payable per Bond of US\$1,000,000: US \$31,597.22

TRANCHE "B" Intecest period: November 20, 1995 to May 20, 1996 (182 days)

Interest payment date: May 20, 1996 Interest rate: 6.20% per amoun Coupon amount psyable per Bond of US\$ 1,000,000: US \$31,344.44

Morgan Guaranty Trust

22 February 1996 The rate of interest for the period 22 August 1995 to 22 November 1995 has been set at 6.9375% per annum. Interest payable value 22 November 1995 will amount to US\$177.29 per US\$10,000 note and US\$1,772.90

Agent: Morgan Guaranty Trust Company JPMorgan

US\$200,000,000 Range floating rate notes

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to purchase Common Stock of MCIC INVESTMENT CORPORATION

NOTICE IS HEREBY GIVEN that, pursuant to Condition 4 of the Warrants, the Warrants shall expire on December 22, 1995 (the new Expiration Date). Warrantholders may exercise their Warrants at any time up to and including 10.00 a.m. (Brussels or Laxembourg time) on the new Expiration Date. Warrantholders are reminded that the Shares may only be registered in a name, and delivered to an address, outside the United States.

SWISS REINSURANCE COMPANY By: Morgan Guaranty Trust Company os Warrent Agent

Dated: November 21, 1995

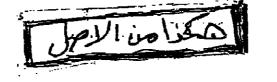
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project, which is a combined

road, light rail and commercial

property development. It has

been dogged by delays and cost

overruns, mostly reflecting the difficulty outsiders have in

been problems, Mr Wu said the project had proceeded well

since it received the support of

Thailand's king earlier this

year. "We are now getting 80

per cent approval for what we

want to do. We are making tre-

He also sought to counter

the impression in Hong Kong

that his company was strapped

for cash. "At present we have HK\$6bn (US\$776.2m) in the bank, [analysts] don't know

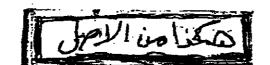
what the hell they are talking

In general, bankers said they

about," he said.

mendous strides," he said.

doing business in Thailand. While he admitted there had



FINANCIAL TIMES TUESDAY NOVEMBER 21 1995 ca link-up

### INTERNATIONAL COMPANIES AND FINANCE

### Hopewell's Wu backs Bangkok deal

in Hong Kong

Mr Gordon Wu, managing director of Hopewell Holdings yesterday dismissed advice from Hong Kong bankers that the property and infrastructure group should quit its Bangkok mass transit project.
As Hopewell's share price

continued to slide on investor concerns over the Bangkok project, Mr Wu rejected bank recommendations to quit: "It's not up to the banks to decide what to do. There is not a singie dollar of bank money in it." Last week, Hopewell shares fell 10 per cent. Yesterday they closed 10 cents lower at

The mass transit project in Thailand's capital, launched three years ago at the height of east Asia's "infrastructure fever", has already cost the company Bt8.5bn (\$338.6m) of an estimated Bt60bn for the

HK\$4.075.

are centure

to use output

END US YOUR

YN PAPERCLIP

first 40km phase of the project. "[Mr Wu] has got big projects on the horizon, but there is a question mark over the Bangkok project," one banker said. "He should cut his losses and get out of it and concen-

COMPANY PROFILE Hopewell (HK\$ bri) 110 -100 Æ

trate on what he's got." Analysts, who are otherwise relaxed about Hopewell's finan-

forecasting future earnings

had become guess work because the terms of many of the company's big projects are Mr Wu said he remained

market

past six weeks.

the government's privatisation

team, has been moved to a

lower-ranking position as head

of the department's research

and training division. He is replaced by Mr Dono Iskandar, former head of the expendi-

ture, budgeting, credit and

Last month. Mr Bacelins

state finance analysis board.

Ruru, former chairman of the

capital markets supervisory

were comfortable with Hopewell's other projects, even though some had not turned out as forecast. They said Hopewell's superhighway, connecting Shenzhen to Canton, cost HK\$5.5bn more than expected but this was due to road improvements, not costoverruns as some thought.

Indian Oil

### Relegation from Morgan index hits Indosat shares

Shares in Indosat, the Indonesian satellite telecoms company, dipped 10 per cent on the Jakarta Stock Exchange yesterday after Morgan Stanley announced it would be replacing Indosat with Telkom, the domestic telecoms company, in its Morgan Stanley Capital International Indonesia Index.

Indosat shares fell to an intraday low of Rp6,200 but recovered to close at Rp6.800. as fund managers sold indosat stock to match their portfolios with the MSCI Indonesia Index. Telkom shares closed

unchanged at Rp2,125. MSCI said the move, which will take effect at the close of trade on December 1, would avoid overweighting the telecommunications sector in its index of Indonesian shares.

The decision is seen as controversial among some investment bankers who note that forces some people to buy Tel- cent of daily volume on Indon- Suta.

Source: FT Extel

kom shares," said a director at a Jakarta-based Singaporean brokerage firm.

The international tranche of Telkom's offer was halved to avoid a price slide in secondary market trading following weak demand for the stock.

indosat and Telkom are now the Jakarta Stock Exchange's two largest capitalised stocks, Naiser to Telkom for its initial regularly accounting for mies and succeeded by one of public offering. "It certainly between 30 per cent to 40 per his deputies, Mr I Putu Ary

#### to float further 10% esia's notoriously illiquid

By Shiraz Sidhva in New Delhi

In a related development, Mr Indian Oil Corporation, India's Mar'ie Muhammad, the minislargest state-owned oil comter of finance, appointed offipany, said yesterday that it cials to new posts in his miniswould place a further 10 per try in his second reshuffle of cent of its equity after March the finance department in the 1996 to finance new projects worth Rs160bn (\$46m). Political observers say the

The corporation earlier this year became the first public reshuffles could signal a rethink of the government's sector enterprise to offer privatisation programme following the Telkom fiasco. shares to the public, when it floated 9 per cent of its equity in line with the government's Mr Jusuf Anwar, formerly policy of reducing state ownersecretary general at the ship of Indian businesses. finance department and part of

Mr R.K. Narang, Indian Oil's chairman, said the company hoped to raise Rs120bn by placing 5 per cent in the Indian market and \$350m through another 5 per cent offered on the international market.

Mr Narang added that despite depressed conditions on the Indian market, IOC would have to raise money to fund Rs100bn worth of projects on hand and projects

board was appointed director-IOC, with a Rs250bn turnover, operates six of India's 12 oil refineries.

### Air NZ and Ansett await clearance

ir New Zealand and Australia's Ansett Air-Imes last week brought to an end months of negotiation and speculation, when they announced outline plans for a tie-up. But before the transaction flies, there are some large obstacles to over-

There are two obvious prob-lems. First, what will happen to Ansett New Zealand, the only significant competitor to Air NZ in its home market?

Second, if Air NZ does eventually move to 50 per cent ownership of Ansett, will this jeop-ardise the latter's designation as a substantially Australianowed airline, and thus create problems for its international

route authorities? While the second matter is not immediately pressing given the structure of the deal, the former is expected to exercise New Zealand's Commerce Commission, the competition watchdog, over the next few months. Already, the commis-sym has indicated it will take Intil March next year to examine the implications - assum-ing that Air NZ/Ansett make a formal filing shortly.

The agreement announced Friday provides initially for TNT, the Australian transportation group, to sell half of its 50 per cent holding in Ansett to Air NZ, for A\$200m.

Air NZ would then have the

right to buy the other half by early-1998 for A\$225m. If Air NZ fails to exercise this right, TNT could repurchase the original stake for the price paid. ln the meantime, there would be moves towards a commercial alliance. Air NZ

would also assume part of TNT's capital commitments over the buy out period.

The genesis of the deal - and the reason why Air NZ has

continues to expand.

Any hopes of direct access to the much larger Australian market were dealt a blow last

"open skies" arrangement with New Zealand. ha, but these are already fully

Asian market - is impossible In the meantime, BA's pur-

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U.S. \$120,000,000. 111/26 Guaranteed Forex-Linked Notes

due 21st November, 1995 e the redemption at manufact the Spee Rate has been set at 101,9025

The Settlement Factor is 0.05845

The Settlement Factor is 0.05845

The Redemption Price per U.S. \$10,000 is U.S. \$3,415.50
Papable on the 21st November, 1995

Bankers Trust International PLC,

Rupert Murdoch's News Corp, which owns the other 50 per ing "co-operation" between these two carriers has presented Air NZ with formidable cent of Ansett, before switching to TNT - lies in the NZ carrier's quest for growth. competition on its doorstep. Qantas can offer "one-stop", Air NZ was created by the seven-day frequencies on most

merger of the country's interof Air NZ routes, for example. national airline and its domes-Within New Zealand, some tic air services operator, NAC. In 1989, it was sold off to Brieranalysts have argued that Air NZ should not be overly ambiley Investments and three tious, and "stick with its knitting" rather than tackle Ansett, which has been losing international carriers, including Qantas. A condition of the sale was that Brierley sell on part of its holding to investors generally, through a stockmar-ket flotation of the carrier. domestic market share to Qantas and is likely to make losses this year. Increasingly, however, these views have been in the minority.

Since this two-stage privatisation, Air NZ has generally Neither TNT nor Air NZ are fared well, pushing down costs keen to discuss what detailed

The agreement announced last week provides initially for TNT, the Australian transportation group, to sell half of its 50 per cent holding in Ansett to Air New Zealand for A\$200m

and proving fairly resilient during the 1990s recession. But with a small domestic market, there is the question of how it

year when the Australian federal government unilaterally withdrew from a planned

Air NZ did acquire some "beyond rights" from Austraused. This means that any fur-ther route expansion for the NZ airline – using Brisbane, say, as a stop-over point to the lucrative and fast growing

proposals they will put to the Commerce Commission to deal with the Ansett NZ problem.
However, Mr Jim McCrea, Air NZ's chief executive, has said that the operations, which recently moved into profit after six years of heavy losses, will

be "ring-fenced". \*Our relationship clearly has to be hands-off. If we make this investment, we will have to maintain that situation," he has said.

Such reticence by the carriers themselves has not stopped analysts from speculating. Some suggest Air NZ may be willing to leave ownership of Ansett NZ in the hands of TNT or News Corp.

Alternatively, Ansett NZ could be sold to a third party

pursued the acquisition of a chase of a 25 per cent stake in for a nominal sum. There has stake in Ansett so persistently, Qantas. Australia's other even been the suggestion these negotiating first with Mr national arrive, and the grow-operations could be floated off as a separate entity, although

this is not thought likely. From the Australian standpoint, regulatory matters may be simpler. Although the deal will need Foreign Investment Review Board approval and will also be examined by the federal transport minister, it would seem to achieve what the government was seeking when it pulled out of the open skies arrangement last year -namely, a duopoly in the trans-Tasman air service market.

"This solves the problem of introducing a third airline to Australia; what this does is make Ansett a stronger com-petitor," one analyst said yesterday.

Ansett, runs the argument, will gain from Air NZ's energetic management capabilities, and from the feed which the NZ carrier can provide. While Qantas may have a slightly tougher time as a result, there will at least be no introduction of significant new capacity and probably no all-out price war. "I don't think Air NZ and Ansett would be stupid enough to slash the hell out of the market," the analyst argued.

As for the problems posed by the degree of non-Australian ownership of Ansett, there is a broad assumption that these are not insurmountable - at least, by 1998.

That said, with discussions due to start this week, the official comment from the regulatory authorities is that the matter is "complex".

> Terry Hall in Wellington and Nikki Tait in

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Goldman, Sachs & Co.

5,000,000 American Depositary Shares Equivalent to 25,000,000 Shares of Class B Stock

ino was offered outside the Unded States and Brazil by the undersigned

Goldman Sachs International Merrill Lynch International Limited

**Daiwa Europe Limited** Enskilda **ING Barings** 

Morgan Stanley & Co.

**Garantia Banking Limited** Pactual Overseas Corporation

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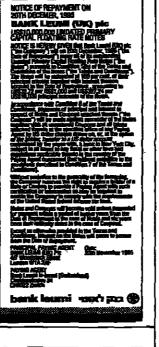
Banco de Investimentos Garantia S.A.

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November 1995



J.P. Morgan & Co. Incorporated US\$200,000,000

Subordinated floating rate notes due August 2002

provisions of the notes, notice is hereby given that for the interest period 20 November 1995 to 20 February 1996 the notes will carry an interest rate of 5.75% per annum, Interest payable on the relevant interest payment date 20 February 1996 will amount to US\$73.47 per US\$5,000 note. Agent Morgan Guaranty Trust Company

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Rexam warns

and makes \$41m

purchase in US

### Lord Young's fate hangs in the balance

non-executive directors met yesterday afternoon at a secret London rendezvous to settle the fate of its chairman and chief executive. More than two hours later, no decision had been communicated to com-

pany headquarters. Lord Young of Graffham. appointed executive chairman in 1991, and Mr James Ross, named chief executive in 1992, are locked in an acrimonious dispute over group strategy. Tensions between the two finally broke into the open late last week. Mr Ross rejected a proposal from the non-executives that he should quit early in the new year, leaving Lord Young to retire at a time of his own choosing, his 65th birthimplement group strategy without what he sees as interference from Lord Young.

Lord Young is believed to be disappointed with what he sees as Mr Ross's failure to create a coherent and credible strategy for the group. Critics say C&W with chief interests in the US. Europe and Asia and a string of minor operations elsewhere, resembles more an investment trust than a telecome company. There are fears that the dispute could damage ambitious deals that the company has been planning to stabilise its international strategy.

The deals at risk include a plan for Nynex and Pactel. both US local telecoms opera-tors, to take a stake in Cable alliance between Mercury Communications, C&W's UK subsidiary, and Nynex Cablecomms, one of the most aggres-

sive UK cable operators. Veba, the German group which is C&W's largest shareholder, said: "There are ques tions that need to be resolved concerning C&W's strategy and also about the way the company presents itself worldwide. We welcome the fact that it has now come to a point where these issues will be clarified."

C&W's institutional investors were yesterday angry that the row seemed to have lated to boiling point with little warning. "It is totally unhealthy and has to be



James Ross, left, and Lord Young: tensions have been growing over the past few months

However, they were divided on how the non-executives should resolve the issue. Some said that if Lord Young and Mr Ross could no longer work together, the chief executive should go and the chairman

contributed £6.5m profits on sales of

581.2m. Advertising revenues grew 11 per

cent, with circulation revenues up 2 per

tions division more than doubled to £8.8m

on sales 65 per cent ahead at £77m, helped

by a first contribution from the European

Radio, one of Emap's biggest growth

areas, posted a jump in profits and sales.

These were helped by the first full six-

month contribution from Trans World

Communications. Profits more than tre-

bled to £5.4m on sales more than doubled

publishing business of Maclean Hunter.

Profits from the business communica-

replacement was found. This could be earlier than Lord Young's previously announced departure date. Others, however, said the non-executives should decide

based on which man had the best experience to run the com-

pany. "If I were in a shipwreck and had these people in my crew, I would have to ask which one do I kick overboard Well, it would have to be Lord Young, I think I would prefer to give Ross a free rein than

operating profits, after excep-tionals, of \$3.5m. the latest company in the European packaging, printing and paper industries to have

ing conditions in the second half of the year. Since the summer, profit margins have been squeezed by the inability of companies to pass on higher pulp and other raw material prices and by second-half destocking by customers reacting to an easing in end-product prices.

Margins are expected to fall

Ry Patrick Harverson

ing in four months.

The warning overshadowed

the announcement that Rexam

was paying \$41m for Mark

Industries, a Connecticut-based

company which supplies pack-aging to the US lipstick case

market. This year Mark, which

has assets of \$21m, is expected

to report sales of \$45m and

The UK-based Rexam, for-

merly known as Bowater, is

warned of deteriorating trad-

from a little less than 10 per cent to about 8 per cent by

In the past two weeks Arjo Wiggins Appleton, the

Anglo-French paper group, KNP-BT, the Dutch paper

Cumbria-based paper and board manufacturer, have issued profits warnings or announced lower results.

Today, the UK group

group, and James Cropper, the

Shares in Rexam dropped 37p to 335p yesterday after the packaging and printing group issued its second profits warn-De La Rue is expected to announce results which are likely to be short of market

Yesterday Rexam said that falling sales since the summer would leave pre-tax profits for the year at £185m (\$292m).
That would be about 20 per cent short of 1994's £231m and well below the £250m to £270m forecast by analysts at the beginning of the year.

Demand has weakened so far that production at Rexam's speciality paper mills had fallen sharply, with as much as 40 per cent of one mill's production capacity lying idle.

Rexam said destocking would account for about half of the profits shortfall. It added that a dramatic decline in plastic resin prices

since July and signs of weakening paper prices would cause some stock losses. In addition sales of windows in Germany would significantly curtain profits in its building and engineering division.

Yesterday's drop in Rexam's shares means they have now fallen more than 35 per cent

### Emap gets lift from acquisitions but fears slowdown in second half

Record circulations from magazines as diverse as Trout Fisherman and More! helped Emap, the publishing and media group, report a 58 per cent rise in half-year pre-tax profits from £22.2m to £33.9m

However, Mr Robin Miller, chief executive, warned the advertising market was likely to slip in the second half, with likefor-like growth of 6 per cent forecast against the 8 per cent in the first half. The increase in profits came ahead of analysts' expectations, who raised their pre-tax profit forecasts from £82m to £85m

Mr Miller said the group had offset a titles have an 11 per cent market share, sharp rise in paper prices through a cut in group costs and "quite buoyant" advertising income, which accounts for half of group revenues.

The figures were also lifted by the radio and publishing acquisitions, including the first full interim contribution from the French magazine division bought for

£106m, 18 months ago. Group turnover increased 43 per cent to £334.1m for the half-year to September 30. This included a 13 per cent rise in the UK magazines. which comprises 90 magazines, to £107.1m. Operating profits rose 27 per cent to £17.7m

The French magazine business, whose 38 at £17.4m.

30 Sep 94

2,390

4,909

10,517

258

139

242

440

19,202

8,007

30 Sep 95

224

362

66

104

277

449 19,748

9,164

1.920

### L&G buys SGIC life side for A\$94m

By Nikki Tait

Legal & General Australia, an offshoot of the British insurance company, and SGIO Insurance, the recently privatised Western Australian-based general insurer, yesterday emerged as the joint buyers of the insurance operations of the South Australian government – known as SGIC – for

A\$170m. L & G will buy the SGIC Life business for A\$93.8m, and will also be given an investment management contract for the South Australian government's compulsory third-party insurance pool. Meanwhile, SGIO Insurance will acquire SGIC's health and general insurance

operations for A\$52.1m. The buyers will also purchase 50 per cent interests in SGIC's head office building in Adelaide for A\$24m.

SGIC had a gross written premium of A\$248m in the last financial year, with about 250,000 policyholders. It has a staff of about 685.

The insurer, which was set up primarily to provide an alternative source of a motor and household insurance in the 1970s, ran into financial problems between the late-1980s and early-1990s. These were mainly because of difficulties in its property invest-ment portfolio and diversification into "high risk" insurance. There have since been man-

agement changes and a restructuring. Under the deal, the South Australian government will retain ownership of the compulsory third party insurance fund, through its Motor Accident Commission.

Proceeds from the sale will be used to repay state govern-

### Placing values Cash Converters at £23.9m

Cash Converters International, the Australia-based retailer, is coming to the Stock Exchange with a value of £23.9m (\$38m). Some 34m shares, 34 per cent of the enlarged equity, have been placed at 23.8p, raising £8.1m before expenses. Proceeds will be used to fund expansion, which is being con-

centrated on Europe.

The company has 124 franchised stores, specialising in second-hand goods, in Australia with a further 68 in the UK. France, New Zealand, South Africa and Canada. It is forecasting operating profits of A\$1.41m (£670,000) for the six

months to December 31. Dealings are expected to

### Unilever's Nigerian merger approved

By Paul Adams in Lagos

**ASSETS** 

Liauld funds

Marketable securities Placements with banks and

interest receivable

Other Investments Other assets

LIABILITIES

other financial institutions Loans and advances

Investments in associates

Premises and equipment

Deposits from customers

Deposits from banks and

other financial institutions Certificates of deposit Interest payable Other liabilities Minority interests

TERM NOTES, BONDS AND

OTHER TERM FINANCING SHAREHOLDERS' FUNDS

Reserves & retained earnings

Current period's profit

Treasury stock

Shareholders have approved the N4.2bn (\$51m) proposed merger between Unilever Nigeria, a wholly owned subsidiary, and Lever Brothers Nigeria, 40 per cent owned by Unilever. It would be the largest corporate deal by quoted

A share exchange between majority stake in a Nigerian the two companies gained near unanimous approval at an extraordinary meeting in Lagos. The boards are applying for clearance from Nigeria's authorities for the merger. which would gives Unilever control of the enlarged LBN. Unilever would become the

company since recent legislation scrapped limits on foreign ownership in manufacturing and other non-oil sectors.

Other multinationals, which had their shareholdings cut to 40 per cent by decree in the 1970s, plan to follow suit. This deal, in which IBTC, the first multinational to take a Lagos merchant bank, is the 'LBN.

adviser, will complete the restructuring of Unilever's investments in Nigeria. This began in 1994 with the

sale of UAC Nigeria, apart from the AJ Seward skin prod-ucts business. This formed the core of Unilever Nigeria along with cash from the disposal and two years' dividends from

### Filofax lifted by European growth

By Geoff Dyer

Filofax, the USM-quoted personal organiser concern, increased interim pretax profits by 37 per cent helped by strong sales growth in continental Europe.

e 45 ner cen tember 30, which led to pre-tax profits rising to £2.91m (£2.12m).

Sales growth came largely from personal of turnover and profits. In continental r cont Mr £19.9m (\$31m) in the six months to Sep- Robin Field, chief executive, said there was more growth to come on the Conti-

line with analysis expectations; the shares. France as we have in Sweden," where the fell 6p to 269p after several directors sold group already has a large market share, shares.

UK sales were more than 10 per cest higher, Mr Field said, despite its being a organiser business, providing 75 per cent mature market. The acquisition of Topps of England, which produces the Microfile

share of 85 per cent. Analysts are forecasting an increase in nent. "There is no reason why we should full-year pre-tax profits to £6.8m (£4.92m) turnover to continue to rise.

		Teres	Her (12m)		-tax it (Em)	BR	S (p)	Current payment (p)	Date of payment	<ul> <li>Dividends Corresponding dividend</li> </ul>	Total for year	Yold las
	ABI Letsure Yr to Aug 31 Applied Holo 6 mits to Sept 30	85.3 3.47	(70.6)	4.22 0.051	(3.58 ) (0.310L)	9.7† 0.2	(8.4 ) (1.4L )	2.93	Dec 29	2.71	4.35	4.06
	Capitol 6 mths to Sept 30	4.56	(3.39 ) (3.51 ) (23.6 ) (26.8 )	0.638	(0.542 )	4.51	(3.92 )	1.33	Dec 15	1.2	-	3.6
CONSOLIDATED	Cropper (James)	27.8 33.8	(23.6 )	0.603♠ 1,31♠	(1.2 )	4.6	(9)	1.1 3.5	Jan 12	1,1	-	3.7
	DBS Management $\Phi$ 6 mths to Sept 30 Photosis Yr to Sept 30	33.0 216	(192 )	27.4	(1.09 ) (25 <b>8</b> )	12.9 31.7	(11.7 ) (28.9 i	3.3 10	Dec 19 Jan 11	9.5	14.5	6 13.5
DALAMOF	Emap 6 mins to Sept 30	334	(234 ) (13.7 )	27.4♥ 33.9 2.91	(25♥ ) (22.2 ) (2.12 )	10.8 7.4†	(28.9 j (7.9 )	3.7	Jan 12	2.5	14.0	13.5 9.75
BALANCE	Filefax § 6 miles to Sept 30	19.9	(13.7 )	2.91	(2.12 )	7.4†	(6)	1.35†	Mar 29	1.05		2.625
	South Staffs Water 6 miles to Sept 30	30.4	(30 )	7.71	(7.09)	95	(86)	23	Jan 2	19	•	68
SHEET	Investment Trusts	MA	Y (p)		(1) (2) (2)	EP4	S (p)	Current (c)	Date of payment	Correspondiza dividend	Total for year	Total last year
(At 30 September 1995)	F&C Elementary Yr to Sept 30 F&C German 8 miles to Sept 30	258.4 158.4	(227.7 ) (143.3 )	0.919 0.505	(0.812 ) (0.333 )	1.49 1.28	(1.35 ) (0.85 )	1.25	Dec 22	1.23	1.25	1.23 0.5
	Earnings shown basic. Divideods shown net. F \$USM stock.	igures in	brackets an	for come	spending peri	od. †On ir	creased cap	olital. 📥 Alitar ex	ceptional cha	arge. <b>V</b> After exc	eptional credi	ž. <b>Ģ</b> Aim st
	CONTRACTS & TENDERS											

US \$250,000,000

Hungarian Foreign Trade Bank Ltd.

Notice is hereby given that as at the valuation data 10th November 1995, the value of the zero - coupon obligations (or certificates

representing interests in obligations) of the United States of America was US \$138,443,350.00, and the value of the Company's reserve hard was US \$7,430,699.71. The aggregate value of the Noteholders security was thus \$1,55 percent of the principal amount of Notes customiding at the valuation.

convenience and Information of the Noteholders and shall not be binding for any purpose on the Trustee or the Reserve Fund Monager or the Reserve Fund Monager or the Reserve Fund Reporting Agent nor shall it be taken as recommendation on the part of the Company, the Valuation Agent, the Guaruntor, the Trustee, the Reserve Fund Monager or the Deserve Fund Monager or the Deserve Fund Monager or the Deserve Fund Reporting Agent

similar to the zero-coupon obligation of the United States of America or the

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der Sparlassen, London Branch

2006 arantood by

### (Reviewed by Ernst & Young, Bahrain) CONSOLIDATED INCOME STATEMENT (9 month period to

30 September 1995)

16,928 1,000 1,000 487 437 1,515 1,472 19,748 19,202 (US\$ million) 1995 1994 Jan - Sep Jan - Sep INCOME FROM OPERATIONS 293 280 Other operating income 497 453 TOTAL INCOME Operating expenses OPERATING PROFIT BEFORE LOAN LOSS PROVISIONS 174 (38)Loan loss provisions (44)PROFIT BEFORE TAXATION AND 157 MINORITY INTERESTS 136 (24)Taxation on foreign operations (22)(17) Minotity Interests in subsidiaries 101 95 **NET PROFIT FOR THE PERIOD** (Reviewed by Ernst & Young, Bahrain)

المؤسسة العربية المصرفية (ش٠م٠ب) Arab Banking Corporation (B.S.C.)

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#### PLICATION BY MONTREAL TRUST COMPANY OF CANADA IN RESPECT OF SERIES 1, SERIES 2 AND SERIES 3 BONDS ISSUED BY OLYMPIA & YORK FIRST CANADIAN PLACE LIMITED

TAKE NOTICE that the final hearing (the "Final Hearing") by the Ontario Court (General Division) (the "Court") of Application No.B287-95 (the "Application") under Rule 14.05(3)(a), (b), (c) and (f) of the Rules of Civil Procedure of the Province of Ontario, Canada (the "Rules") by Montreal Trust Company of Canada ("Montreal Trust"), in its capacity as trustee for the holders of the 10.70% Series i Secured Bonds dne November 4, 1993 ("Series 1 Bonds"), 11.00% Series 2 Secured Bonds due November 4, 1998 ("Series 2 Bonds") and 11.00% Series 3 Secured Bonds due November 4, 1993 ("Series 3 Bonds") (collectively, the "Bonds") issued pursuant to the Trust Indenture for Secured Bonds dated as of September 19, 1988 between Olympia & York First Canadian Place Limited and The Royal Trust Company, as former trustee, as amended and supplemented (the "Trust Indenture"), is scheduled for Tuesday, December 5, 1995 at 2:30pm. (Toronto time) at 145 Queen Street West, Toronto, Ontario, or as soon thereafter as counsel may be heard.

The Final Hearing will proceed only in the event the holders of the Bonds (the "Bondholders") approve the restructuring plan to be considered at the Special Serial Meetings of the Bondholders to be held Tuesday, November 28, 1995, in accordance with the Notice of Special Serial Meetings dated October 13, 1995. At the Final Hearing, Montreal Trust will seek an order concerning the fairness of the restructuring plan to the holders of each series of Bonds and directing Montreal Trust to effect the restructuring plan. Copies of the Notice of the Application, together with other materials concerning the restructuring, have been mailed to registered holders of the Series 1 Bonds and the Series 2 Bonds and made available to the holders of the Series 3 Bonds through Bank of Montreal in London, England, the principal paying agent for the Series 3 Bonds, and through Euroclear and Cedel Bank.

Any Boadholder or any other interested party may appear at the Final Hearing in person or by counsel. Any Bondholder or any other interested party desiring to appear at the Final Hearing is required to file with the Commercial List/Bankruptcy Court Office, Ontario Court (General Division), at 145 Queen Street West, Toronto, Ontario, and serve upon Montreal Trust, on or before 2:00 p.m. (Toronto time) on Monday, December 4, 1995, a Notice of Appearance including such party's address for service together with any evidence or material which are to be presented at the Final Hearing, all in accordance with the Rules. Service on Montreal Trust should be effected by delivery to the solicitors for Montreal Trust, McCarthy Tétrault, at Suite 4700, Toronto-Dominion Bank Tower, Toronto, Ontario, M5K 1E6, Attention: Malcom M. Mercer. If a party does not attend, either in person or by counsel, at the Final Hearing, the Court may make such order as it shall deem fit, without any further notice to such party. Only those Bondholders who deliver a Notice of Appearance in accordance with the Rules will be entitled to be served with any further documents, to receive notice or to take any further steps in the Application.

Dated November 21, 1995 MONFREAL TRUST COMPANY OF CANADA, 25 Trustee

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Warns

Text of a letter by R W Rowland, the second largest Shareholder in Lonrho, being sent to all Lonrho Shareholders

### LONRHO-IMPALA PLATINUM MERGER DOES IT ADD UP?

20TH NOVEMBER 1995

The Board of Lonrho proposes a merger of its Dear Lonrho Shareholder, platinum assets with a competitor, the Impala platinum mines, which are owned by Gencor. Lonrho would receive shares in Implats, a subsidiary of Gencor. The Lonrho platinum mines in South Africa are the company's major asset, and for this reason your vital interests as an investor are concerned. As Lonrho shareholders, you have financed the platinum mines from their inception, and should

In broad terms, Lonrho's platinum mines are young and healthy, excellently managed and South reap the benefit. Africa's lowest cost producers. Impala is bigger, but is in more difficult ground and is less cost efficient. Impala is also an older mine and part of a group which has already mothballed two platinum mines. In the past few years Lonrho has received varied offers from Gencor to take over Lonrho's platinum

The Lonrho Board has now published the terms Division. It's hardly surprising. for an agreed merger. These terms are not good enough, when it is realised that as formulated they

• A price far less than that envisaged by stockbrokers and analysts in the past two years.

Loss of ultimate control of Lonrho's biggest asset. 8 Loss of Lonrho's central attraction for outside

10 Loss of direction at Lonrho, which promised to expand and support its core activities, specifically

6 Exclusion worldwide from any further platinum

6 Vulnerability to 'creeping control' by Gencor. In my opinion, further purchases of a major block of Lonrho shares would, combined with this merger,

put Gencor in control of Lonrho without a full In commenting on the terms, I rely on forty years of negotiating experience in the mining industry of Southern Africa as a mine owner, as a director of Rio Tinto companies, and at Lonrho where I remain the

second largest shareholder. There can be no objection to the right deal for Lonrho. It is my firm belief that this is the wrong deal

and should be voted down in the interest of Lonrho Listed below are the material difficulties which and its shareholders.

need to be explained by the Board before the EGM on 30th November, if shareholders are to reach an informed decision.

Yours sincerely R W Rowland

Alas Cash 14 25 £23.9m

in growth

#### WHAT WILL THE REALIZED VALUE OF THE LONRHO. SHAREHOLDERS IN THE PLATINUM MERGER?

On page 3 of their circular the Board of Lourho assigns a value of about £402 million for the 29,168,425 shares of Implats that Lonrho finally expects to receive for the Lonrho Platinum Division.

L46m shareholder louins

Lonrino has shareholder loans of £46 million to LPD. According to the public Implars statement 'Lonrho will cede to Implats its claims on loan accounts against LPD amounting to R262.8 million.' (£46 million). Is this an amount the shareholders have to deduct from the stated value of £402 million? If yes, this is a large sum to forego and against what is

Did the Board in its calculations deduct the value of the R204 million Did the Board in its calculations deduct the value of the R204 million claim by Lonrho against Implats/Impala over the Karee Mine deal? This claim is well founded and was strongly supported by the Board of Lonrho. Did the Board take the advice of an independent mining specialist and legal counsel before giving up a claim of £36 million as a concession to Implate in this merger?

Ou page 5 of the circular the Board says: Dividends have not been paid by LPD to Londio for several years, because of constraints imposed by the working capital and capital expenditure requirements of LPD. Did the Board take into account that Lourho is replacing a cash flow (which can be regarded as a dividend payment) of between £6-10 million annually in interest payments on the shareholder loans to LPD, with an insecure cash flow from dividends?

Is it correct to say that prospective dividends from Implats would be subject to 25% taxation in South Africa, whereas the interest payments are tax free for Londo and tax deductible to LPD in South Africa? Does Lourho have a guarantee from Implats for about £10 million payment of dividends before taxes, or not?

Value capped by Put Option

Did the Board consider that the realised equity value is limited by the Put Option to R74 per share, compared to a stated value of R77.5-R80 per share in the initial merger. Would this lower the sale price for Lourho's Implats shareholding by between £18-£31 million? Is it not correct that the claim of the Basokeng tribe, (see below) which would lead to the Put Option being exercised, it serious and therefore the execution of the Put Option is a real possibility?

Does the stated £402 million value to Lourbo reflect the value Does the stated 2-102 million value to Louing renett the value established by Lourho's merchant bank Morgan Grenfell, which advised Lourho in this merger? If yes, why does Morgan Grenfell not support this merger by a full recommendation to Lourho's shareholders in Lourho's circular about the merger?

The circular contains a long technical report on the present state of the mines. Despite 'extensive due diligence' enquiries the circular does not contain anything from Morgan Grenfell. Could Lourbo's shareholders have sight of Morgan Grenfell's advice and recommendation, and be told the value it has established from

Lourho's Platinum Division?

4

Is it correct to assume that the legal, technical and merchant banking costs are still to be deducted from the stated benefit to Lourho's shareholders?

DOES THE BAFORENG TRIBE'S CLAIM PERMANENTLY LIMIT THE ESTABLISHED VALUE TO R74 PER SHARE?

Did the Board consider the concern (page 44 of the circular) of the technical consultant over the claim of the Bafokeng tribe, which could lower the value of the Implats group by a significant amount? If yes, who is the senior counsel in Johannesburg who advised Lourbo .... that the probability is that any such action will fail....? (page 84 of the circular)

Surely one line cannot accurately represent his entire opinion bearing in Did he qualify his opinion in any way or offer specific advice to the

Will Lourho shareholders be able to see the written commer senior connsel or at least a précis of it, and if not, why not?

Is the Board of Lourbo aware that Implats offered the Bafokeng tribe the right to subscribe for 7% of the equity of the Impala Group during the years 1990-1994, as stated in the annual reports of Implats from 1990-1994?

Did the Board of Lonrho and merchant bank Morgan Grenfell consider this factor and how would the possible concession of these rights or any other financial claim by the tribe affect the value of Lourbo's equity stake in this merger?

Net value

As outlined in an article by South African Business Day, dated 14th November 1993, the claim of the Bafokeng tribe seems to have substance. Why does the Board of Lourho enter into a merger of its major asset where the probability of a claim against the merger partner, whether successful or not, is high and imminent?

Would Lonrho then only be able to realize a maximum net value of around £330 million for it's Lourbo Platinum Division, whereas Lourho's chief executive earlier this year helped analysts of the City to establish a value for Lonrho's 72,59% interest in LPD in the range of £450-500 million? The maximum price of R74 per share as a result of an execution of the option would enable Gencor to take over LPD for a far lower price than they would have to pay as a direct offer.

Has the Board of Lourho approached the legal advisers of the Bafokeng tribe in order to assess the position of their claims, before entering into

Is it correct that the Bafokeng tribe claim, which affects most of the mining rights of Impala, is fully prepared and ready to be issued? Why is the Board not waiting for the outcome before merging the

#### WHAT ARE THE BENEFITS AND THE SYNERGIES OF

What the Board says

The following is an extract from page 5 of the circular: .. believes that the mergers will provide the following benefits to Lonrho

 it will allow more rapid and extensive development of LPD's assets. The
development of LPD's operations has been constrained for some time by
high levels of borrowing; the Enlarged Implats will have low borrowing; - it will produce a number of operational improvements arising, in particular, from the sharing of mining and processing techniques. In the short term, however, mining synengies are likely to be balanced broadly by the costs of achieving them. In the medium and longer term, the Directors believe that there will be substantive benefits for Implats shareholders, including Lonrho.

Is it correct (page 24) that the platinum production with minimal capital expenditure, the platinum output of LPD can be increased rapidly to a level of some 600,000 oz from the 1995 achieved level of some 550,000 oz, and that the proposed increase in platinum production to 770,000 oz per annum by the year 2001 will be achieved with a planned capital expenditure of additional <u>R163 million</u> over the next years, which means an improvement of 220,000 oz per annum from the 1995 achieved level of

Is it equally correct that Implats would achieve an improvement of usurly the same size (240,000 oz/per annum) with a capital expenditu program of R427 million, only over the next 3 years?

Where is the capital expenditure benefit to LPD if Implats, expansion program for the same increase in production costs 21/2 times more than that of LPD and the planned capital expenditure program of LPD could be financed by the cash flow at present without the need for

#### Synergies:

Based upon the annual reports from Implats, it is obvious that the production cost in R/kg of platinum group metals "pgm" from the smelter has risen from 19,000 in 1991 to 27,000 in 1995 (page 31), whereas the production cost at LPD has not risen from 1991 to 1995 and is at about 21,589 R/kg of pgm in 1995 (page 16).

LPD's production costs are 20% lower than those of Implats.

Operating costs 22% lower

The planned operating cost per oz at LPD for the year 2000 are projected to be 666 R per oz whereas at Implats they are projected to be 811 R per oz, which is a cost difference of 22% in favour of LPD. Since 1978 LPD has steadily increased output in each and every year, whereas Implats records volatile production levels with 1995 lower than most recent years. (page 31).

On page 12 of the circular the technical consultant says: 'Upon completion of the merger a team will be constituted to review the synergistic opportunities available to the merged quantity and to make proposals to the board regarding the means by which they can be realised."

Can it be that the Board of Lourho has not assessed the potential synengies of merging 'the lowest cost primary underground producer' LPD with the high cost producer Implats before proposing the merger to Lourho shareholders?

The technical report states on page 23: "Loarbo Platinum Division has substantial shallow reserves." In fixing the price for LPD, did the Board of Lourbo and the merchant bank Morgan Grenfell reflect the significant added value of these reserves, which can be extracted at the lowest cost in the industry? If yes, what is the value given to these reserves by Morgan Grenfell, the company's merchant bank?

1995 accounts

Why does the Board not make the 1995 figures of LPD available to Lourho shareholders in order to enable them to compare LPD's figures with those of Implats for 1995?

Did the Board consider a potential bid from the major platinum producer Anglo/Rustenburg and did Loarho's merchant bank Morgan Grenfell approach them in order to establish the highest possible value for Lourho's 72.59% stake in the Loarho Platinum Division? If not, why not? The technical consultant notes that LPD's expansion programmes are highly capital efficient. Lonrho is certainly not under financial pressure. Until eight months ago all Lonrho directors with relevant experience and the entire South African management were opposed to a Gencor merger. What rationale is there for giving up Lontho's best stand-alone asset for a price which, after all the deductions and risks are considered, appears to be no more than £390-£350 million?

#### SUFFICIENT INFORMATION

Why has the Board of Lourho refused to give enquiring shareholders copies of the relevant published documents, thus depriving them of the opportunity to properly evaluate the effect of the transaction on the Company?

How can shareholders evaluate the transaction if the only way that they can inspect the 2,000 or so A4 sheets of published documents is by poring over them in the company solicitors' offices during the 8 working days that remain before the EGM?

Clear view

What inconsistencies or drawbacks would be clear from these documents if shareholders' professional advisers had a proper opportunity to review

A proper and open evaluation before the EGM will help us all to get this vital deal right.

Response: If you share the concerns expressed in this advertisement contact Lonrho's company secretary and attend the EGM on 30th November.

ASK YOUR ADVISERS TO EVALUATE THE DEAL CAREFULLY AND ACT ON THEIR ADVICE

NISSAN CAPITAL OF AMERICA, INC. YEN 6,000,000,000 FIXED/REVERSE FLOATING RATE NOTES DUE 1996 YEN 4,000,000,000 FIXED/FLOATING RATE NOTES DUE 1996 (See "Series B Notes")

Notice is hereby given that "Series A Notes' Coupon No. 6 will pay a coupon amount of Yen 909,184. The rate of interest for the "Series B Notes' Coupon No. 8 has been fixed at 0.30313% and the interest payable will amount to Yen 15,325. Both Series A Notes and Series B Notes will be payable on the relevant interest Payment Date May 20, 1996 in respect of Yen 10,000,000

November 20, 1995, London By: Citibank, N.A. (Issuer Services), Agent Bank

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#### CITICORP

U.S. \$250,000,000

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Notice is hereby given that the Rote of Interest for the period November 20, 1995 to February 20, 1996 has been fixed at 5.75% and that the interest payable on the relevant Interest Payment Date February 20, 1996, against Coupon No. 11 will be US\$73.47 in respect of US\$5,000 nominal of the Notes and US\$1,469.44 in respect of US\$10,000 nominal of the Notes.

November 20,1995, London By: Citibank, N.A. (Issuer Services), Agent Bank **CITIBANCO** 



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**LEGAL NOTICES** 

No. 086469 of L995 IN THE RIGH COURT OF JUSTICE CRANCERY DIVISION

> IN THE MATTER OF UNISTAT GROUP PLC IN THE MATTER OF THE COMPANIES ACT 1985

NOTICE IS HEREBY GIVEN that the Order of the High Court of Justice (Chancery Division) dated 8th November 1995 confirming the reduction of the state premions account of the above named company by £990,327 was registered by the Registrar of Companies on 13th November 1995.

Dated this 21st day of November 1995

Astaust Morns Crisp Broadwalk House ors of the said Company FT CITYLINE

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#### Paalman quits after KNP BT 'difference'

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Bert Paalman has resigned as a member of the executive board of Dutch paper and packaging group KNP BT, following the publication of disappointing third-quarter results caused primarily by setbacks in the packaging division. Paalman, who was responsible for the packaging sec-tor, has yet to be replaced, but his tasks will be temporarily assigned to Frank de Wit, deputy chairman of the six-member executive board.

KNP BT said Paalman's resignation was caused by a "difference of opinion" on the course of action to be taken in packaging. A spokesman said the dispute was about basic principles of policy, and not about operational details, but he declined to elaborate. The disagreement is believed to centre on how to bolster the sector's per-

formance in the short term. The group, formed in 1993, recently reported a 40 per cent drop in thirdquarter operating profits in packaging to Fl 39m. The decline, far larger than analysts' predictions, was caused in part because KNP BT had to write down the value of large stocks of waste paper - a raw material for packaging. Ronald von de Krol

Nikko picks Saudi



who stepped down as SAMA's vice governor in July, has been hired as a senior adviser to the president and executive board of Nikko Securities. Al Malik, who joined SAMA in 1980, after a career in Saudi Arabia's Ministry of Defence, will provide Nikko with strategic analysis and advice on political and economic developments in the Middle East, particularly those affecting Saudi Arabia.

#### Coleman bows out

Lew Coleman, who missed out on the top job at BankAmerica Corporation, is quitting the West Coast banking giant at the end of the month. Mike O'Neill. 49, who joined BankAmerica following its acquisition of Chicago's Continental Bank last year, takes over Coleman's role as chief financial

Coleman's departure was not unexpected since he lost the race to succeed Richard Rosenberg, BankAmerica's chairman and chief executive. The two had previously worked together at Wells Fargo and Coleman was part of the team that restored BankAmerica's fortunes following its near collapse in the 1980s. However, BankAmerica decided in August to pick David Coulter, head of corporate

INTERNATIONAL PEOPLE

banking, to succeed Rosenberg.
O'Neil joined Continental Bank in 1974. He left ten years later to work in London as an independent workout specialist on shipping loans. He rejoined Continental in 1989 and became chief financial officer in 1992. He currently heads BankAmerica's global equity investments unit.

#### Bloomberg signs up

Michael Bloomberg, the wealthy founder of Bloomberg financial news service, is getting ready to take on the chairmanship of the board of trustees of The John Hopkins University, his old alma mater.

Bloomberg has decided to step down from the board of TIG Holdings, an insurance company spun off from Transamerica Corporation. He joined the board less than two years ago but says that increasing demands placed

upon him by his business and his expected responsibilities at John Hopkins mean he can not afford to devote the time and attention he feels necessary to serve on the TIG board. Last month Bloomberg, 53, who studied engineering and physics at John Hopkins, donated \$55m to his old university. It is believed to be the largest private donation to any university.

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#### **Bankers Trust move**

Bankers Trust, one of the world's biggest fund managers, does not like to run with the herd. It has decided to integrate its \$195hn investment management activities around the globe under Ian Martin, a 46-year-old Australian, based in Sydney.

Martin, head of Bankers Trust Aus-

tralia Limited's fund management business, is a former Australian Treasury economist. He joined BTAL as chief economist in 1985 and has been responsible for turning it in to one of Australia's most successful fund man-agers. However, with funds under management of \$20bn it is overshadowed by the \$168bn managed by BT's New York operation.

Martin, who will continue to manage BT's Australian fund management business, will now oversee the "strategic development" of BT's

worldwide investment business. Ivan Wheen, who has headed BT's New York investment management operation, is moving to a new post in Singapore developing BT's Asian business

#### Ford's Ross retires



Louis Ross (left) Ford's vice chairman and chief technical officer, is to retire at the end of the year. Ross. a. director since 1985. joined Ford 40 years ago as a Harattal Hatta is tag

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He became vice president of Ford Brazil in 1973, and two years later returned to the US to a succession of increasingly senior headquarters

If Ross's seat on the 15-member board is filled, it will most likely be by an outsider - leaving Ford's chairman, Alex Trotman, and Ford Motor Credit Co president, Edsel Ford II, as the only executive members.

At one stage, Ross had been considered a candidate in a three-way race for the Ford chairmanship, along with Allan Gilmour and Trotman. Gilmour retired at the end of 1994.

#### ON THE MOVE



■ Yuzo Matsushito (left) has been named managing director of NKK EUROPE. based at the Japanese steel

company's European headquarters in London. Matsushito joined NKK in 1966, and since 1993 has been a member of the group re-planning company's steel operations.

■ Australian specialty fashion retailer COUNTRY ROAD has appointed Michael Warner chief executive to run its US operation, which lost A\$3.5m (US\$2.6m) in the year to July

■ Roman Gozalo, 50, has been named chief administration officer for Elf Acquitaine, replacing Phillipe Jacques. Patrick Timbart, 45, inherits his previous post as managing director of Elf Exploration Angola, and Maurice Comtet. 51, has been named director of human resources for Elf Exploration-Production. ■ David Stevens has been appointed vice president. exploration at NORANDA MINING AND EXPLORATION. He was until recently senior

vice president of exploration at Independence Mining, a division of Minorco. ■ Pierre Habib-Deloncle replaces Jean Matouk as chairman of France's SOCIETE MARSEILLAISE DE CREDIT, with a brief to oversee its privatisation.

Rick Mina, 38, has been named managing director of FOOT LOCKER EUROPE, with responsibility for Woolworth Corporation's 218 Foot Locker stores in Europe. Michael Connell becomes director of merchandise operations.

■ Edmund Wong, 37 (left), becomes senior vice president of UNITED OVERSEAS Singapore's largest

financial institution, heading a new strategic investment division. ■ Bruce Bastian has resigned from the board of NOVELL, the networking software company. He had joined the board as a result of the 1994

acquisition of WordPerfect Corporation, which he founded with Alan Ashton in 1979. ■ David Hannah, 44, chief financial officer of RELIANCE STEEL & ALUMINIUM since 1992, rises to president and Gregg Mollins, 40, to executive

vice president and chief operating officer. Steven Wels, 3, previously chief financial officer

officer of Rubbercraft Corporation, becomes chief financial officer. ■ Dennis Oates, president and chief operating officer of LUKENS STEEL of the US, is leaving the company to consider other business oportunities. The Services.

unouncement came as parent Lukens Inc., revealed plans to integrate its Lukens Steel and Washington Steel business

■ Timo Korvenpaaa has been named head of finance at NOKIA OY of Finland. ■ Norbert Kaesbeck, a COMMERZBANK veteran since 1970, becomes a deputy member of the board on January. 1. ■ Jean-Claude Fontaine, 40, a

Relgian is the new director general of EURATEX, the European Apparel and Textile Organisation. He replaces Camille Blum, who becomes secretary general of the European Automobile Manufacturers Association (ACEA).

■ Jonathan Ornstein is to resign as ceo of CONTINENTAL EXPRESS, a wholly owned subsidiary of Continental Airlines of the US. ■ Richard Roy has joined IBEX
TECHNOLOGIES, the Canadian biopharmaceutical company, from Bell Canada International as chief financia

■ Thomas Peck has been. appointed as national sales manager, Wirehouse Firms, by american skandia life ASSURANCE. He joined Skandia in 1994 after working for Massachusetts Financial

■ Martin Wagner is to head the US GENERAL SERVICES ADMINISTRATION'S new office of governmentwide planning, policy and eadership.



executive in North America. For the last six years, Lake has been president of Roadway Logistics Systems,

■ Leo Melamed, chairman emeritus of the Chicago Mercantile Exchange (CME) and inventor of financial futures, has been elected to the board of directors of the CATALYST INSTITUTE, a Chicago think tank. ■ George Lippe becomes president and chief executive of TRAMMELL CROW, the

privately-held US property company, from January 1. He succeeds James Carreker, who becomes vice chairman and retains his role as president and chief executive of Wyndham Hotels & Resorts. Graham

Robertson (left) has been named managing director of TETLEY AUSTRALIA. He joins from **Griffith Laboratories** 

Worldwide, where he was managing director for Australia. ■ Helmut Jost, 42, joins IBM as director of its personal computer division in Germany, replacing Hermann Caffier who is leaving the company. ■ William Nix becomes treasurer of AGCO CORPORATION, the

agricultural equipment manufacturer. He was previously director of corporate finance at Caraustar Industries. ■ John Lunderen. 44. rises to

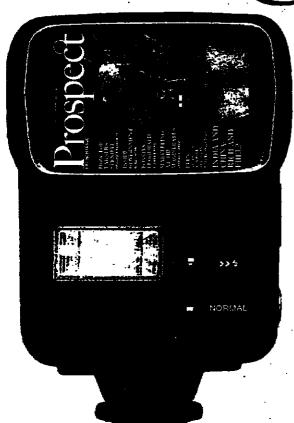
president of JAMES RIVER CORPORATION's European consumer products business. Lundgren, who joined the group in 1982, was most recently responsible for European strategic planning, marketing, purchasing and

logistics. Fabrizio Rindi is to be head of Italian business at Swiss insurer WINTERTHUR. Hans Hoeveler, 49, becomes management board chairman at Westdeutsche Landesbank's subsidiary, DEUTSCHE INDUSTRIE- UND HANDELSBANK of Berlin. He succeeds Dirk Koerner, 53, who has transferred to New York. Rebecca Sharp, 46, general merchandise manager at Texas-based Neiman Marcus, has been appointed group merchandising director of House of Fraser, the UK department store group. BANK OF AMERICA has hired Mark Nuttall from the Bank of England's foreign exchange division, to boost its central bank sales team. Nuttall, who joins on January 2, will work closely with similar teams in New York, Singapore and Tokyo.

#### International appointments

Please fax announcements of new appointments and retirements to +44 171 873 3926, marked for International People. Set fax to 'fine'.

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### Opec ceiling UK meat industry split over 'mad cow disease' costs feels the strain

By Robert Corzine in Jeddah

The Organisation of Petroleum Exporting Countries meets in Vienna today to decide whether to change its present production ceiling of 24.52m barrels a day. The ceiling, which has been in effect since September 1993, is being undermined by over-production from a number of Opec countries, including Venezuela, Qatar.

Nigeria, and Gabon. Saudi Arabia and Kuwait, two big producers that have kept within their quotas, are expected to put pressure on the persistent violators. But there has been speculation among some Opec delegates as to whether the oil ministers of Venezuela and Nigeria in particular are in effective charge of the oil policy in their respective countries.

One Opec delegate said the oil policy of the two countries had been hijacked by higher authorities. The Venezuelan finance ministry had increasing influence over the state of company, the delegate said. and General Sani Abacha, Nigeria's military ruler, was dominant in setting that coun-

try's oil output levels.
Opec over-production in esponse to relatively firm oil brices is a perennial problem for the organisation, and one that has so far defied solution. There is somebody always try-

current Opec output at about lm b/d over the ceiling. Esti-

year and threaten to do so again in 1996.

ing to cheat," said a delegate. Some industry analysts put

mates at the lower end of the range place it near 600,000 b/d. The issue of over-production has been complicated by growing output from oil producers outside the organisation. Countries such as Norway and the UK have captured the bulk of the growth in oil demand this

Analysts say a cut in the Opec ceiling would boost prices, which in the third quarter of the year averaged \$16.34 a barrel for the benchmark Brent Blend. But previous

- SICTEMS

Fire Circ

attempts to reduce the ceiling have proved politically impossible,

In addition Saudi Arabia, the world's largest oil exporter and the dominant Opec member, appears determined to maintain present production of 8m b/d, according to diplomats and industry observers in the king-

Many western analysts say Opec should simply accept that it will have to wait until 1997 or so before it can capture a significant share of oil demand growth. They argue that a rollover of the present ceiling, the outcome which most oil analysts and traders expect from this week's meeting, is the best way to stabilise prices.

Some Gulf Opec states say a roll-over does not necessarily have to mean abandoning hopes of a higher oil price next year. They argue that non-Opec output from the North Sea in 1996 may not be as large as predicted. They also cite current low stock levels in the run-up to the northern hemisphere winter as a factor which could underpin short

term prices. Some Opec officials say the relative tightness of the international market means that any adherence to the present ceiling could add \$1 to \$2 to the current price.

The international oil industry will also be looking for signs of any move by Opec to claw back market share by loosening quotas and flooding

Such a move is the subject of much debate within Opec countries. But it would depend on the agreement of Saudi Arabia, Kuwait and the United Arab Emirates, the three Opec states with excess capacity.

But analysts say any attempt to drive more expensive non-Opec oil from the market would raise broad political and strategic issues for the three countries, which rely on the US and the UK, both of which are producers of relatively expensive oil, to help underpin

### COMMODITIES AND AGRICULTURE

By Alison Maitland

The usually tight ranks of the UK meat industry have been split apart by a bitter row over charges for disposing of cattle organs that may be infected with "mad cow disease". Abattoirs, many of which are suffering from the industry's

part of the extra costs of disposal to farmers. Auctioneers, backed by the National Farmers' Union, have refused, saying they have no mandate. Many abattoirs have responded by boycotting live-

stock markets, costing auction-

overcapacity, have asked live-

stock auctioneers to pass on

The government tightened up the disposal regulations in August. The skull must now be destroyed along with the brain

and eyes and other remains such as the spine, spleen and intestines. Previously the skull went into the meat and bonemeal rendering process. As renderers' disposal charges are fixed by weight, the new requirement has pushed up abattoirs' costs. The offals must also be stained to distinguish them and dealt with separately from other remains. The extra cost to abattoirs of

disposing of this "specified

eers hundreds of thousands of bovine offal", which could at my head".

pounds in lost revenue. carry the bovine spongiform He accused the abattoir encephalopathy (BSE) disease, is put at £23m a year.

They want farmers to pay £3.50 per animal - half the £7 they say the new rules are costing them. The Federation of Fresh Meat Wholesalers, which represents slaughterhouses, is pressing the farmers' union to arrange a joint industry meeting with Mr Douglas Hogg, the agriculture minister, to discuss the

But Mr Ben Gill, the union's deputy president, yesterday refused to seek such a meeting

industry of using the new rules "as a smokescreen" for its overcapacity problems. He said it should cover its extra costs by lowering prices to farmers or charging more to meat processors. A fixed levy was inappropriate to cover a cost that varied between slaughterhouses, he said.

Each side is predicting the other will be forced to give way first. Abattoirs have been buying cattle direct from farmers and Mr Gill said some animals were being delivered to slaughterhouses in the middle "while I've got a gun pointing of the night to avoid publicity.

at 20 per cent throughput last week. They can't do that for much longer."

Mr Peter Scott, general secretary of the meat federation, said direct buying could pose a long-term threat to the auctioneers.

Ironically, both sides agree the government should really be footing the bill. "As it's a notifiable disease, the government ought to be

funding the eradication pro-

gramme," said Mr Scott. "It has dumped it at the door of the meat plants."
Mr Jim Watson, president of the Livestock Auctioneers try.

ment allowed the renderers to reduce rendering temperatures some years ago which allowed contaminated animal product to get back into the animal feed chain (and cause BSE). The government ought to face up to their responsibilities."

The agriculture ministry seems unlikely to come to the industry's rescue. "These are costs for the industry," it said yesterday. The industry has also been requesting help from the EU's veterinary fund to eradicate the disease, but the 1996 allocation has already been used up, said the minis-

### Output stays on back burner as food stocks shrink

Sustainable expansion of production to meet rising demand need not be damaging to the environment

single sheet of A4 paper from the UK Intervention Board arrived on my deak last week dated November 15. It informed me of the level of sur-plus food stocks purchased by the board, in line with the Common Agricultural Policy of the EU, currently held in UK

In summary it revealed that the UK stock of bread-making wheat was nil; of barley, just over 8.000 tonnes; of feed wheat, 22 tonnes (a little less than a lorry load); of rye, nil; of butter, not quite 1,300 tonnes, of skimmed milk powder, nil; of bone-in beef, nil; and of boneless beef, a little more than 5,000 tonnes.

Not many mountains and lakes are left in this country, that is clear. But Britain is part of the EU and must of course, consider its food surpluses alongside 14 other member states. Further enquiries revealed that the situation across Europe is not significantly different.

Although not all figures were quite as up to date as those for the UK (some related to intervention stocks a few weeks or months ago) latest available figures for total EU stocks of cereals, including

GRAINS AND OIL SEEDS

M WHEAT LCE (E per tonne)



By David Richardson

those in the UK already mentioned, amounted to less than 5.5m tonnes; of dairy produce, 35,000 tonnes; and beef 12,000 tonnes. Even stocks of olive oil, at one time one of the EUs main surplus products, amounted to just 24,000 tonnes and those for wine alcohol to 120m litres.

In other words food sur-pluses in the EU's public stores are, in most cases, down to or close to bare boards, reflecting the tightness in world supplies of many basic commodities. Moreover, the Food and Agriculture Organisation in Rome said in its October bulletin "the cereal supply/demand out-look for 1995-96 has tightened further"... and... "next year's cereal harvest will be crucial for world food secu-

SOFTS

rity". The report went on to explain that world carryover stocks of cereals were forecast to be only 14-15 per cent of consumption by the end of the 1996 crop year - a drop of 3 to 4 per cent since last year and of 6 to 7 per cent in four years. The International Grains Council monthly market report dated October 26 reinforced the point; "grain prices continued to strengthen as the supply outlook tightened further", it said. "Some importers, anxious to avoid even higher prices. were regular buyers of wheat at around US\$200 per ton (FOB). . . the [European

Union] made provision for the possibility of introducing export taxes." It is only a matter of months since the EU was having to pay export subsidies in order to sell grain on to world markets and was negotiating within the General Agreement on Tariffs and Trade for the right to contimue to do so. Now the union seems set to charge taxes on exports to discourage them in order to try to hold down the cost of grain needed for animal

feeds by Europe's hard

-pressed livestock farmers. And yet, the Rural White Paper, published last month, together with a number of other recent reports by interested bodies on which it was clearly based, stated that "expanding food production is no longer an overriding imperative". It went on to speak of what it obviously believed to be mistaken policies pursued by the EU "still influenced by memories of post-war food

he white paper also urged farmers to adopt L more sustainable systems and minimise damage to the environment, which it stated must now be top priority. Now I am not the farmer who will say such an objective is nonsense. Indeed I am chairman of an environmental body (LEAF, Linking Environment and Farming) whose aims coincide closely with that government line

But those shortages of cereals, which, by their keenness to buy forward, traders clearly believe will last for some time, surely dictate that some of the official assumptions on food supplies should be examined more closely.

They have to be assessed alongside forecasts that the population of the world will rise to 8.5bn in the next 30 years; that in the five minutes

MEAT AND LIVESTOCK

■ LIVE CATTLE CME (40,000;bs; cents/ibs)

or so it takes to read this column there will be a net rise in the global family of almost 1,000.

At a domestic UK level, it may not be widely appreciated that overall food self-sufficiency is only about 55 per cent and for those commodities that can be grown in our climate, about 70 per cent. Moreover, according to calculations made by the National Farmers' Union, 93 per cent of all the production of British agriculture goes directly or indirectly for human consumption as

Enthusiastic as I am for the environment, I fear the cavalier attitude that the production of food need no longer be a UK farming priority is dan-

That is not to say that I believe Britain or western Europe are heading for famine next year. The likelihood is, given current high world prices, that farmers around the world (with the exception of those of us in the EU still subject to 10 per cent set-a-side) will seek, weather permitting. to maximise production over the next two or three years and that this may lead to further modest surpluses by the end of

the century.

But population increase and the aheady obvious inability of world agriculture consistently to expand production as fast as mand must lead to an inexorable long-term trend towards

shortage, not surplus. What is clearly needed, therefore, is a system of farming that is as sustainable as it is possible to be; which cares for the countryside and minimises damage to the environment but maintains production and allows for sustainable expansion as new and developing environmentally responsible technology permits and the inevitable

need arises. I believe that the basis of that system is already with us. It is advocated by LEAF and is called integrated farming. It addresses positively all the points I have mentioned. It had been developed by practical farmers and agricultural specialists. It has been accepted by most environment and food

interest groups.

Indeed, there is mounting evidence that the LIK government and the EU are coming to similar conclusions. Such bodies should now publicly adopt. promote and support it as the safe, economic and acceptable policy for food and farming.

### COMMODITIES PRICES

1680-60.6 1674-75 1683/1668

BASE METALS LONDON METAL EXCHANGE (Prices from Ameloameted Metal Trading)

> 1842-49 1637.5-38.5 1648/1631

AM Official Kerb close	1636-36.5	1670.5-71.5 1 <b>882-83</b>
Open int	221,626	1002 05
Total daily turnovi	er 34,950	
E ALUMINIUM A	LLOY (\$ per tonne)	
Closs	1355-66	1395-40\$
Previous	1370-80	1410-20
High/low AM Official	1370/1355 1355-56.0	1410/1395 1390-410
Kerb close	1000-0000	1410-20
Open int.	3,812	
Total daily turnove	yr 980	
LEAD (\$ per to		
Close	728-30	707-8
Previous	722-24 723	704-5 707/700
High/low AM Official	723 722-23	702-2.5
Kerb close	122-20	708-7
Open Int.	31,913	
Total daily turnov		
MICKEL (S per		
Close	8475-85	8595-600 8490-500
Previous Materialism	8375-85 8410/8400	8480-500 8640/8425
High/low AM Official	8410-20	8510-20
Kerb close		8630-40
Open stt.	42,977 s 9,234	
Total daily turnovi		
TIN (5 per torn		8415-25
Close	6385-95 6370-80	8410-20
Previous High/low	6380/6365	6450/6395
AM Official	6370-75	6405-10
Kerb clase	16,945	6415-20
Open int. Total daily turnovi		
E ZING, special	kligh grade (\$ per t	onne)
Close	1033-34	1057-58
Previous	1026.5-7.5	1048-49
High/low	1025 1024.5-5.5	1055/1047 1048-48 5
AM Official Namb close	1024.5-0.3	1048-48 5 1054.5-55.5
The unit	83.197	
Total daily turnovi	32,332	
E COPPER, grad	be A (S per tonne)	
Close	3003-5	2768-9 2745-47
Previous High/low	2990-95 3005/3000	2770/2743
AM Official	2988-3000	2748-50
Kerb close		2764-5
Open ett.	174,885 57,255	
Total daily buntow		5
IN LIME AM Office	lei C/\$ rede: 1.544 E/\$ yete: 1.5480	
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II HIGH GRADE	COPPER (COMEX)	
	29'8	Open Vol let
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prior ch Nov 14030 + Dec 133.15 +	200 140.70 138.30 1 65 133 70 131.50	153 1,422 3,063 16,829
prior ch Nov 140 30 + Dec 133 15 + Jun 129 15 +	2.00 140.70 138.30 1 65 133.70 131.50 1 35 129.80 129.50	153 1,422 3,063 16,829 69 1,147 83 633
prior ch   line	2.00 140.70 138.30 1.65 133.70 131.50 1.35 129.80 129.50 1.30	153 1,422 3,083 18,829 69 1,147 83 633 1,432 9,843
Price Cit   Cit	200 149.70 138.30 165 133.70 131.50 1.35 129.80 129.50	153 1,422 3,063 16,829 69 1,147 83 633

PRECIOUS METALS I LONDON BULLION MARKET 5 pnce 386.50-388.90 386.55 388.30 249.951 440.923

396.30-386 70 US cts equ/ 535,25 541,25 547,00 559,75 p/troy 02-946.45 351.05 355.55 365.20 .c5.2% \$ pase 386-387 397 05-389.55 90-92 c equiv. 250-251 Cold Coin

Precious Metals continued ■ GOLD COMEX (100 Tray az.; \$/tray az.) Bett Day's 3875 3885 18,167 58,703 388.0 388.0 6,769 29,444 391.0 360.8 77 8,556 393.4 383.0 981 18,404 - 503 3,815 M PLATINUM NYMEX (50 Troy oz.; \$/troy oz.) 689 16,529 90 2,436 4 1,654 103 537 1 5 138.05 +0.20 138.25 134.50 938 3.631 138.75 +0.25 137.00 138.00 755 328 137.75 -0.10 138.00 75 3.28 1,894 6.836 E SELVER COMEX (5,000 Troy oz.; Cents/troy oz.) 584.5 582.5 5,679 44.371 584.5 582.5 5,679 44.371 1 33 542.0 540.0 1,457 27,448 544.5 544.0 11 8,780 550.0 548.0 53 6,196 17.99 82.298 108,298 17.77 32.060 44,199 17.63 15.034 24,482 3,888 20,439 1,537 15,316 MI HEATING OIL HMAEX (42,000 US gales; c/US galles) 52.95 52.00 17.852 45.474 53.26 52.05 17.852 45.474 52.95 52.25 8,100 25.884 51.05 50.80 22.22 10,740 48.10 48.85 527 4,831 48,20 47.85 38 4,009 47,222 144,854 H GAS OIL PE S/IDE 9,384 24,796 7,360 22,984 707 7,329 849 4,996 259 2,314 44 1,139 157.25 +0.75 157.50 156.50 155.75 +0.50 155.75 155.00 153.75 +0.50 154.00 153.25 152.00 +0.50 152.00 161.50 BI NATURAL GAS NUMEX (10,000 INSIBIL; STREETIL) 2,089 2,050 38,789 25,659

Latest Day's
price change Hgs
53,00 +0.27 53.28
7.55 -0.06 52.10
7.5 -0.18 52.35
7. -0.18 52.35
7. -0.18 52.35
7. -0.08 54.50 54.50
7. -0.02 54.50 54.50

Sett Day's -0.05 128.10 127.85 - 130.30 129.80 - 132.30 131.80 128.30 130.30 132.30 134.30 115.00 496.00 +3.50 496.50 492.50 8,563 26,008 492.50 +0.50 496.50 491.50 7,364 48,714 455.75 -2.25 458.00 455.50 456 46,226 412.50 -3.25 417.00 411.50 1,529 18,982 414.00 -4.00 418.00 414.00 226 3,059 Dec Mar May Jul Sep Dec Total MAZE C81 (5,000 bu min; cents/568; bushel) Dec 328.50 -1.59 328.75 3

Mary 339.00 -2.25 338.75 3

Mary 339.50 -2.59 338.50 3

Jul 329.50 -2.75 338.50 3

Jul 329.50 -2.75 327.6 3

Sup 233.00 - 233.50 2

Duc 279.25 - 280.00 2

Total

M. SARLEY LCE (£: per tonne) 338.50 -1.50 328.75 325.75 25.891 108.998 333.00 -2.25 335.75 332.50 36.896 222.599 333.50 -2.50 336.50 333.00 6.990 42.428 329.50 -2.75 332.75 322.00 4.943 54.733 275 332.75 329.00 4.943 54.733 - 283.50 291.25 453 9.592 - 280.00 277.50 1,778 25,958 270.0 253.8 305.0 325.0 -15 1790 -70 1680 -70 1620 -70 1620 -70 1605 -53 1400 -40 1480 1780 1620 1550 1550 1520 1350 1470 Clast Prev 1753 174 **FUTURES DATA** 2.065 +0.020 1.338 +0.003 2.073 2.021 24,169 37,285 1.955 1.910 7,993 18,293 1.830 1.806 4,985 12,741 1,710 1.698 2,030 8,082 1.707 +0.907 1,710 1.698 1.710 +0.905 1.712 1.704

+0.35 120.50 120.50 - 123.25 122.90 BEAMS CET (5,000bs min; cents/50th bushel) 682.00 +0.50 683.50 679.50 · 1,471 1,089 673.50 -7.50 688.50 679.00 22.159 81,868 688.25 -6.75 686,75 687.90 4,921 39,825 682.50 -6.25 700.25 881.75 1,158 13,185 1,147 18,316 23 985 31,992 170,512 25.18 -0.33 25.88 25.15 4,077 22,495 25.39 -0.29 25.84 25.35 5,976 29,223 25.89 -0.25 25.12 25.66 3,118 17,499 25.99 -0.25 25.22 25.00 1,511 8,687 25.15 -0.22 25.42 28.15 972 7,956 26.25 -0.18 26.30 26.25 490 1,495 18.27 88.50 W SOYABEAN MEAL CET (100 tons; \$/ton) -21 2125 298.5 9,072 29,166 -23 214.0 209.8 8,179 27,894 -2 215.9 212.1 4,096 25,209 -21 215.5 211.8 911 7,883 -1.3 215.8 212.5 880 9,386 -1.5 214.2 211.0 34 996 -1.5 214.2 211.0 34 996 -7.7 261.0 255.0 596 223 1,245 1,340 418 82 3,537 39 59 189 161 55 5 Ten
There was good demand this week reports the
Ten Stoker's Association. The few better fiquoring Assams on offer sold well at around legs
levels but others lost 25p following quality.
Africans were a strong feature with brightest
Burund heas showing further gelns while
medium Kanyas and plainer Cartral Africans
advanced 2/4 pence. Offshore bright Ceytons
mat keen comprehend on at dearn rates while
Africans were about firm. Cuctations: best
available: 180-240p/kg, good: 135-150p/kg,
low 78-80p/kg. Highest price realised this
week was a 240p/kg for a Burund pd.

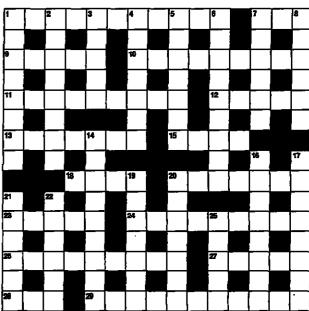
COCOA LCE (E/tonne) 52 2,275 2,427 2,976 208 45 45 2,489 36,397 188 14,909 744 5,262 155 26,397 63 6,416 E,529 118,929 1365 1371 1392 1411 1434 1458 1375 1383 1400 1420 1442 1460 1358 356 2,540 1389 4,312 42,929 175 87 53 ■ COCOA (ICCO) (SDR's/tonne) -26 2499 -59 2300 -64 2207 -62 2135 -67 2069 -52 1990 2450 107 2245 3,236 2152 666 2090 252 2030 133 1890 53 2452 2247 2165 2082 2020 1983 107 1.324 117.80 -2.55 121.50 117.10 5.636 115.20 -4.45 120.00 114.50 4.883 113.20 -4.45 117.50 113.00 389 112.25 -4.45 115.00 111.75 51 111.05 -4.45 112.50 111.25 4 13.25 10.90 10.85 10.85 +8.6 352.5 345.5 588 14.704 +7.0 340.5 334.8 374 5.535 +6.9 331.0 325.4 356 3.637 +5.5 362.0 286.2 331 2.727 +4.5 281.1 280.5 87 1,431 +4.9 288.8 285.8 44 243 1,860 28,288 E SUGAR "11" CSCE (112,000bs; certis/lbs) 10.89 +0.05 10.90 10.78 6.284 78.460 10.72 +0.05 10.72 10.62 2.241 21,142 10.33 - 10.25 10.29 636 13,815 10.22 +0.02 10.34 10.16 1,22 16,134 10.11 +0.02 10.97 10.04 133 9,838 10.01 +0.02 10.07 10.00 238 1,165 86.32 -0.42 88.70 86.80 3.097 8.099 85.53 +0.23 85.70 84.92 5.110 22.182 85.30 +0.35 85.39 84.80 683 8.802 84.80 +0.40 84.80 84.20 235 6.582 79.88 -0.12 79.90 79.75 31 1.428 77.03 +0.01 77.10 78.75 179 7.738 8,205 \$5.888 Des Mar May Jel Oct Dec Total W ORANGE JUICE NYCE (15,000bs; cents/bs) 124.70 +0.10 125.30 123.50 905 16,205 127.50 +0.10 127.80 125.50 396 5,037 129.90 +0.15 130,77 129.90 19 1,539 132.10 +0.10 - 83 706 +0.15 130.70 129.60 +0.24 - 133.50 133.00 VOLUME DATA
Open interest and Volume data shown for contracts traded on COMED, NYMEX, CET, NYCE, CME and CSCE are one day in arrears. INDICES E CRB Festures (Base: 1967=100) Nov 17 Nov 16 month ago 243.81 242.77 SSCI Spot (Base: 1970=100)

1,502 452 188 206 81.900 +0.075 62.100 81.900 44.025 -0.050 44.325 43.800 46.675 -0.450 47.050 46.550 1,434 9,158 1,446 10,284 473 4,189 264 3,938 42 2,175 14 1,073 47.150 -0.250 47.450 47.000 52.650 -0.250 52.900 52.550 52.650 +0.100 52.750 52.450 III. PORK BELLIES CME (40,000fbs: certs/fbs) 56.425 -0.200 57.175 56.125 56.550 -0.175 57.400 56.200 57.550 -0.250 58.400 57.500 59.175 +0.350 59.200 58.250 LONDON TRADED OPTIONS III COPPER (Grade A) LME Dec 109 44 12 76 42 -LONDON SPOT MARKETS \$18.03-8.05w IR OIL PRODUCTS NWE promot delivery CIF (tonne) \$87-88 \$149-151 \$182-184 \$165-166 (0171) 358 6732 Gold (per troy cz) Silver (per troy cz) Platinum (per troy cz.) Palladium (per troy cz.) 535.5c 125.0c 41.75c 15.99m 303.5c Copper Lead (US prod.) +0.30 -1.0 \$303.3 \$388.5 €128.0 Barley (Eng. feed) Malze (US No3 Yellow) Wheet (US Dark North) +2.00 +1.5 419.0m Rubber (KL RSS No1) -5.0 Coconut Oil (Philis \$510.0y 497.0y 197.0u 452p

1 Links the landlord to an endless correspondence (5,6) Appropriate outburst (3) us some pudding (5,6)

No.8.924 Set by ADAMANT

**CROSSWORD** 



1 Very articulate, he gets opening after firm opened (8) Crafty trick putting the paintings provided on ice (8)
 Courage never falters (5) 4 Record it about the saying (7) 5 Royal Marines dispersed in badly built cart (7)

10 News industry engulfed by bad time without delay (9) 11 Drink that helps you keep your counsel? (9) 12 I put in daily for the university post (5) 13 Allowed first kiss for a string 8 There's nothing in the transof pearls, maybe (7)
15 Leads logically into lounge

18 Sour, spending a day round 14 in tears a mile out, all my Jersey perhaps (4)
20 Completely different type
tyre containing carbon (7)

(5) 24. Warned off the action due (9) but push forward (9) Biblical husband brought to game of chance (5)

16 Outside experts on it can make bloomers (8) 17 Good boy! but not everyone is pleased (8) 19 Last month with nothing strange in good behaviour (7) 20 Ronald admits huge discrepancy will make things less 29 With the melon prepared, mix 22 Breathy passage that holds back an alternative (6)
25 But should oil go off in the

Made mock of lucid turn up in

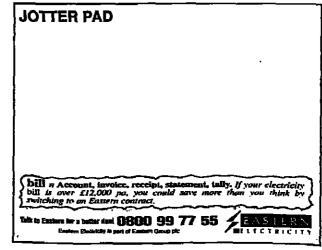
port system's way of thinking

7 Uproar from the French at conciliation body (6)

unfortunate ride (9)

charm wasted (9)

Solution to Saturday's prize puzzle on Saturday December 2. Solution to yesterday's prize puzzle on Monday December 4.



### INTERNATIONAL CAPITAL MARKETS

### Prices soften despite US budget moves | Peugeot finance offshoot

By Richard Lapper in London and Lisa Bransten in New York

The breakthrough over the weekend in the US budget deadlock generated optimism in some quarters, but neither US nor European bond markets yesterday performed to expectations, with the bigger markets drifting lower.

According to one analyst, sales of US, German and UK assets by a Japanese banking institution contributed to market softness, but most observ-ers attributed the decline to profit-taking following last week's strong run.

"This is a classic case of 'buy the rumour, sell the fact'," said Mr David Brown, economist at Bear Stearns International "The markets had discounted some kind of budget breakthrough " he added.

■ In Europe, the day's main economic news was in the UK. where lower than expected fig-ures for third-quarter GDP growth confirmed a picture of continue to boost the short end economic slowdown and of the French yield curve. declining inflationary pres-

Mr Simon Briscoe, chief UK economist at Nikko Europe, said the figures "give the chan-cellor the green light for fiscal and monetary policy relaxation. But the degree of slowdown is rapidly becoming more of a concern than an opportu-

The data initially gave a lift to the gilts market, with the December long gilt rising to a mid-morning high of 1083 in thin trading. Gilts then drifted lower in thin trading to close down a quarter point.

■ Despite the absence of any news on fundamentals, the German and French markets followed a similar pattern. On Liffe, the 10-year December bund future closed at 97.29.

French 10-year bonds were also weaker, although hopes of another cut in interest rates

Floor trading on Matif ended with Pibor up 0.09 at 94.50, a rise of more than half a point in the last week. "The market is taking the view that rates will come down quite quickly,'

Mr Graham McDevitt, bond

strategist at Banque Paribas,

#### GOVERNMENT BONDS

■ Italian bonds were hit by rumours that today's prelimi-nary November CPI figures are likely to be worse than expected. Italian 10-year yield spreads over bunds widened by 2 basis points to 532 basis

However, the Scandinavian markets had a better day. Danish CPI figures for October showed lower than expected year-on-year inflation of 1.9 per cent, compared with 2.1 per

The Finnish market was reached agreement on a tempobuoyed by a cut of 25 basis points in the tender rate, to 4.75 per cent, on unchanged inflation expectations.

Swedish bonds were buoyed by the strength of the krona. Bear Stearns' Mr Brown said the "markets are impressed by the cautious line of the Riksbank [the Swedish central bank] as far as long-term infla-tion is concerned." The Swed-ish 10-year yield spread over Germany narrowed by 13 basis points to close at 262 points.

■ US Treasury prices were lower in late morning trading as traders prepared to digest new supply set to come on to the market this week. Near midday, the bench-

mark 30-year Treasury was off å at 108¼ to yield 6.235 per cent. At the short end of the maturity spectrum, the twoyear note was unchanged at 100%, to yield 5.434 per cent. News that President Bill Clinton and Congress had rary bill to re-open the government helped bonds begin the day in New York with modest gains. But the markets had traded higher last week as investors anticipated a positive resolution to the budget process, so few analysts expected a big rise on Sunday's news.

Instead, profit-taking and preparation for the auctions sent the market modestly lower. Traders generally try to lower bond prices in advance of auctions to drive up yields, thereby making the securities more attractive to their clients. Later, the Treasury Depart-ment was to auction \$18bn in

year notes. Both of the auctions were delayed by budget wrangling in Washington. The dollar was mixed against the yen and the D-Mark, changing hands at Y101.30 and DM1.4105 compared with Y102.15 and DML4065 late on

three-year notes and today it is

scheduled to sell \$13.5bn in 10-

increases debut facility

By Antonia Sharpe

Banque PSA Finance Holding. a wholly-owned subsidiary of Peugeot which provides wholesale financing for Peugeot and Citroën dealers, has increased the size of its first euro-syndicated loan from FFr7.5bn to

Bankers said that since more than FFr15bn had been raised from 60 banks during general syndication, the borrower had decided to increase the facility because it was unlikely to achieve a better cost of funding. "Syndication was a great

success," one said. PSA Finance is paying 12.5 basis points over the London interbank offered rate (Libor) on the five-year credit facility. There is a commitment fee of 6.25 basis points and a utilisation fee of 2.5 basis points when usage exceeds 50 per

PSA Finance because its bank status means the loan will only have to be 20 per cent risk-weighted, rather than 100 per cent in the case of loans to corporate borrowers. "The lower risk weighting has a positive effect on the yield on the loan," said one banker.

SYNDICATED LOANS

The borrower's credit perspective was also enhanced by its being regulated by the French central bank, bankers said, adding that the appointment of Sociéte Générale as one of the four arrangers was a shrewd move because it have not been consistent players in other international loans arranged for French borrowers

Banks were keen to lend to this year, because they have been put off by low lending margins.

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EXCHANGE CROSS RATES

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1777

WIKETS REPORT

The other arrangers of the deal were ABN Amro, Crédit Suisse/CS First Boston and NatWest Markets. Arrangers contributed FFr375m each. senior lead managers FFr320m. lead managers FFr240m, and managers FFr120m. The facility is now closed and will be

signed shortly.

• Chemical Bank and Den norske Bank are arranging a NKr700m seven-year revolving credit facility for Schibsted, a Norwegian media group.

The borrower will start to

repay the loan after the first five years. It will pay a margin of 17.5 basis points over Libor in the first five years, rising to encouraged participation by other Freuch banks. These 20 points in the last two years. The commitment fee is 8.75 basis points in the first five years, rising to 10 points in the last two.

### Venezuela's DM500m three-year deal well received

#### By Conner Middelmann

Venezuela yesterday got in ahead of two other expected Latin American D-Mark borrowers - Colombia and the Province of Buenos Aires - by launching a long-awaited DM500m issue of three-year bonds via Commerzbank.

#### INTERNATIONAL BONDS

Paying a 10 per cent coupon, the paper, which yields 559 basis points over the corresponding government bond, met good retail demand, traders said. But others noted that Venezuela, with its Ba2/B+ rating, was riskier than Colombia. which is set to issue DM200m of five-year bonds this week or next via Deutsche Morgan Grenfeli and SBC Warburg.

UK GILTS PRICES

6.48 601,2 6.31 10314 6.32 10314 6.33 10314 6.33 1037 6.40 10412 6.45 1053 6.45 1053 6.55 115.2 6.5

103% 103% 107% 107% 104% 100% 114% 99% 120% 109% 109% 105% 105% 105% 105% 117%

"Apart from Chile, which has no liquid bonds outstanding, Colombia is the only investment-grade Latin American borrower," one syndicate official noted

for next year, Reuter reports.

"We are getting ready to go out on the capital market," Mr Davydov said. The \$1bn would only be a start, with further

8.21 7.98 5.74 8.21 8.00 8.05

Elsewhere, the market was

quiet ahead of Thursday's Thanksgiving holiday in the US. However, activity could pick up today, with talk of a \$400m five-year offering for KfW, the German reconstruction agency, with Deutsche Morgan Grenfell and Merrill Lynch rumoured as joint leads. Russian deputy prime minister Mr Oleg Davydov said Russia would choose an adviser next month to work on a eurobond issue worth \$1bn planned

issues possible later if it went

AUSTRALIAN DOLLARS

**NEW INTERNATIONAL BOND ISSUES** US DOLLARS SMM Company, Tranche A‡ Swedbenkbit rian NPC of the Philippines(c)\* SWISS FRANCS SMM Company, Tranche B‡ 100.15 Nov.1998 0.15

7,125

Final terms, non-callable unless stated. Yield spread (over relevant government bond) at leunch supplied by lead manager. \*Unlisted. ‡ Floating-rate note. #Semi-annual coupon. At fixed re-offer price; fees shown at re-offer level. a) 3-mith Libor +±%. b) Callable on coupon dates from Dec.02 at par. b1) 6-mith Libor +100bp to Dec.02, then +200bp to Dec.05 and +250bp thereafter. c) National Power Corp. Puttable at maturity at par to the Asian Development Bank.

well. "We are going to keep issuing them. The first for \$1bn ... and then there could be a second and a third tranche. We will see how it goes," he said. The authorities

UND FUTURIES OPTIONS (LIFFE) DM250,000 points of 100%

0.85 0.65 0.48

0.09

0.30

CALLS Jan Feb 0.40 0.65

were looking at suggestions from investment banks, and Russia was also considering a credit rating.

Mr Davydov, Russia's chief debt negotiator who last week

0.95

0.70

concluded a draft accord on rescheduling with foreign banks, said he saw no reason to wait until next May's formal signing of the restructuring before working on the deal.

FT-ACTUARIES FIXED INTEREST INDICES

JP Morgan Securities Morgan Starriey & Co. Intl.

### Philippine yields rise sharply

### By Edward Luce in Manila

Fears of higher inflation. pushed Philippine bond yields up sharply yesterday as the country inaugurated its first fully-automated bond trading

The unveiling of the elec-tronic system, which coincided with the liberalisation of trading in government primary securities, came after 10 days of fierce speculative pressure

on the Philippine currency. Mr Gabriel Singson, governor of the central bank, who borrowing rates by 2 percentage points to 15.12 per cent in an attempt to dampen speculative pressure on the peso, said that the interest rate rises

were "only temporary".

The yield on the bellwether 91-day T-bill rose from 10.9 per kets since 1993, released its market.

- almost 300 basis points up on average rates two months ago. Traders, however, predict that 91-day bond yields will hit 13 per cent by December as doubts about the government's

anti-inflation policies grow. Meanwhile, a government spokesman said yesterday that companies must have an account with the central bank and access to a Dow Jones Telerate screen to qualify for government securities trading.

The new computer-based market, which will be open to all financial institutions which can demonstrate adequate capital reserve ratios, is designed to encourage Philippine companies to tap funds locally rather than abroad.

Earlier this year, the government, which has been active on the international bond mar-

cent to 11.6 per cent yesterday first five-year commercial debt offering on the domestic market.

The government plans to issue longer-term domestic debt once measures to deeper the market are in place. Under a US\$150m reform package, which is being funded by the Asian Development Bank, more sophisticated debt instruments are to be phased in over

the next two years. These will include the establishment of a central depositary system by February 1996; a minimum number of outside non-executive directors for publicly listed companies; stan-dard company disclosure rules for all public offerings; and an amendment of the definition of securities brokers to include banks. There are also plans to develop a more active secondary debt and derivatives

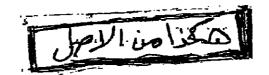
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	Coupon	Red Date	Price	Day's change	Yield	Week ago	Month ago
Australia	7.500	07/05	93.9300	+0.440	8.43	8.68	8.60
Austria	6.500	11/05	97.9800	-0.050	8.78	6.81	6.99
Belgium	6.500	03/05	97.7400	-0.160	5.83	6.85	7.16
Canada * Denmark	8.750 7.000	12/05 12/04	108.3500 96.3000	-0.190 -0.040	7.55 7.58	7.62 7.63	7.70 7.96
France BTAN	7.750	04/00	105.0000	-0.130	6.15	6.33	8.87
CAT	7.750	10/05	105.1500	-0.310	7.02	7.00	7.55
Germany Bund	6.500	10/05	101.0500	~0.340	6.35	6.33	6.60
Ireland	6.250	10/04	90.4500	-0.250	7.77	7.91	8.26
Italy Japan No 129	10,500	09/05	95.1000 120.3460	-0.210 1	1.34†	11.42	11.54
Japan No 129 No 174	6.400 4.600	03/00 09/04	112,9240	+0.090	1.40 2.78	1.47 2.72	1.60 2.78
Netherlands	6.750	11/05	102.6600	-0.200	6.38	6.36	6.68
Portugal	11.875	02/05	106.6000	+0.450	10.70	10.97	11,29
Spain	10.150	01/06	95.5800	-	10.57	10.65	10.98
Sweden	6.000	02/05	81,8170	+0.440	8.96	9.21	9.43
UK Gāts	8.000	12/00	103-16	-3/32	7.16	7.23	7.63
	6.500 9.000	12/05 10/08	105-01 108-27	-8/32 -8/32	7.77 7.89	7.87 7.98	8.16 8.26
US Treesury "	6.500	08/05	104-05	-8/32 -8/32	5.93	7.90 5.96	6.11
	6.875	08/25	108-13	-10/32	6.25	6.27	6.44
ECU (French Govt)	7.500	04/05	100.6200	-0.100	7.40	7.47	7.80
London closing, "New Yo I Gross probating within						ocal meri	uet standard.
US INTERES 2005	RATE	<u> </u>	Treasury	Bills and E	Bood Yie	lds	
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France	54. Sk Ch RES AN	D OP	S (MATIF) F	5.52 FM 5.50 10- 5.41 30-	t year	t. vol.	5.65 5.92
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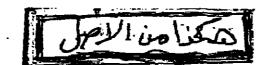
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					Open	Sett price	Change	High	Low	Est. vol.	Open int.
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and Bond	Viole*			Mar	90.46	90.45	+1.05	91.46	90.46	690	2,717
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10-year 30-year			5.92 6.25		Open	Sett price	-	High	Low	Est. vol	Open Int.
				Dec	108-16	108-09	-0-08	108-25	106-06	40570	106888
				Mar	108-03	107-22	-0-08	108-03	107-23	553	5663
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Low	Est. val.	Open	n int.	E ECU B	ONED FUTUI	RIES (MATIF	BCU100,0	1002			
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; 1	Mar 0.37	0.7	3	■ US TRE	Open 117-31	Latest 117–26	Change -0-05	High 118–16	Low 117–23	Est. vol. 295,380	359,595
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: 1 3 9 9 1 - Caffs 17	Mer 0.37 0.61 0.64 1.26 - 70,298 Put	0.73 0.9 - 1.63 - s 166.94	3 4 2	Dec Mer Jun  Japan  NOTICE	Open 117-31 117-21 117-02	Latest 117–26 117–15 117–02 TERM JAF	Change -0-05 -0-06 -0-04	High 118-16 118-06 117-02	Low 117-23 117-14 116-31	Est. vol. 295,380 35,086 951	359,595 86,865
1 3 3 5 5 - Cafs 17	Mar 0.37 0.61 0.64 1.26 70,298 Put	0.75 0.9 - 1.65 - s 788,94	3 4 2 14.	Dec Mer Jun  Japan  NOTICE	Open 117-31 117-21 117-02 NAL LONG Y100m 100	Latest 117-28 117-15 117-02 TERM JAP the of 1009	Change -0-05 -0-06 -0-04 PAMESE G	High 118–16 118–06 117–02	Low 117-23 117-14 118-31	Est. vol. 295,380 35,086 951	359,595 86,865 12,518
1 3 5 5 5 5 5 5 5 5 5 5 5 5 5 5 5 5 5 5	Mar 0.37 0.61 0.64 1.26 -70,298 Put	0.75 0.9 - 1.85 - 3 188,94 0%	3 4 2 2 4.	Dec. Mer Jun Japan II NOTIO (UFFE)	Open 117-31 117-21 117-02 117-02 NAL LONG Y100m 100 Open	Latest 117–26 117–15 117–02 TERM JAF	Change -0-05 -0-06 -0-04	High 118-18 118-06 117-02 OVT. BONE	117-23 117-14 116-31 PUTURE	Est. vol. 295,380 35,086 851	359,595 96,865 12,518 Open int.
1 3 3 3 3 3 3 3 3 3 3 3 3 3 3 3 3 3 3 3	Mer 0.37 0.61 0.84 1.26 70,288 Put Oths of 10 Est. vol 125225	0.75 0.9- 1.65 1.65 1.68,54 0% Open	3 4 2 4 2 1 4 1 1 1 1 720	Dec Mer Jun  Japan  NOTIO	Open 117-31 117-21 117-02 117-02 NAL LONG Y100m 100 Open 121.90	Latest 117-26 117-15 117-02 TERM JAP this of 1009	Change -0-05 -0-06 -0-04 PAMESE G	High 118-18 118-06 117-02 OVT. BONS High 121-98	Low 117-23 117-14 116-31 D PUTURE Low 121.84	Est. vol. 295,380 35,096 951	358,595 86,865 12,518 Open int.
: 1 3 3 5 1 1 2 2 3 3 3 3 3 3 3 3 3 3 3 3 3 3 3 3	Mar 0.37 0.61 0.64 1.26 -70,298 Put	0.75 0.9 - 1.85 - 3 188,94 0%	3 4 2 4 2 1 4 1 1 1 1 720	Dec Mer Jun Japan III NOTIO (LIFFS)	Open 117-31 117-21 117-02 NAL LONG Y100m 100 Open 121.90 120.54	Latest 117-26 117-15 117-02 TERM JAP this of 1009 Close	Change -0-05 -0-06 -0-04 PANESE G	High 118–16 118–06 117–02 OVT. BONS High 121,98 120,68	117-28 117-14 116-31 D FUTURE Low 121.84 120.49	Est. vol. 295,380 35,086 951 253 Est. vol. 2203 1764	359,595 96,865 12,518 Open int.
1 3 3 3 3 3 3 3 3 3 3 3 3 3 3 3 3 3 3 3	Mer 0.37 0.61 0.84 1.26 70,288 Put Oths of 10 Est. vol 125225	0.75 0.9- 1.65 1.65 1.68,54 0% Open	3 4 2 4 2 1 4 1 1 1 1 720	Dec Mer Jun Japan III NOTIO (LIFFS)	Open 117-31 117-21 117-02 117-02 NAL LONG Y100m 100 Open 121.90	Latest 117-26 117-15 117-02 TERM JAP this of 1009 Close	Change -0-05 -0-06 -0-04 PANESE G	High 118–16 118–06 117–02 OVT. BONS High 121,98 120,68	117-28 117-14 116-31 D FUTURE Low 121.84 120.49	Est. vol. 295,380 35,086 951 253 Est. vol. 2203 1764	358,595 86,865 12,518 Open int.
1 3 3 3 3 3 3 3 3 3 3 3 3 3 3 3 3 3 3 3	Mer 0.37 0.61 0.84 1.26 70,288 Put Oths of 10 Est. vol 125225	0.75 0.9- 1.65 1.65 1.68,54 0% Open	3 4 2 4 2 1 4 1 1 1 1 720	Dec Mer Jun Japan III NOTIO (LIFFS)	Open 117-31 117-21 117-02 NAL LONG Y100m 100 Open 121.90 120.54	Latest 117-26 117-15 117-02 TERM JAP this of 1009 Close	Change -0-05 -0-06 -0-04 PANESE G	High 118–16 118–06 117–02 OVT. BONS High 121,98 120,68	117-28 117-14 116-31 D FUTURE Low 121.84 120.49	Est. vol. 295,380 35,086 951 253 Est. vol. 2203 1764	358,595 86,865 12,518 Open int.
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1 3 3 3 3 3 3 3 3 3 3 3 3 3 3 3 3 3 3 3	Mer 0.37 0.61 0.84 1.26 70,288 Put Oths of 10 Est. vol 125225	0.75 0.9- 1.65 1.65 1.68,54 0% Open	3 4 2 2 4 4 4 1 1 1 1 1 1 1 1 1 1 1 1 1 1	Dec Mar Jun Dec Mor Jun Dec Mer • LFFE tass	Open 117-31 117-21 117-02 NAL LONG Y100m 100 Open 121-90 120.54 res step trade	Latest 117-26 117-15 117-02 TERM JAP this of 1009 Close - - ad on APT. Ai	Change -0-05 -0-06 -0-04 PANESE G	High 118–16 118–06 117–02 OVT. BONS High 121,98 120,68	Low 117-23 117-14 118-31 D FUTURE Low 121.04 120.49 for previous	Est. vol. 295,380 35,086 951 253 Est. vol. 2203 1764	359,595 86,865 12,518 Open int. 0
1 3 3 3 3 3 3 3 3 3 3 3 3 3 3 3 3 3 3 3	Mer 0.37 0.61 0.84 1.26 70,288 Put Oths of 10 Est. vol 125225	0.7: 0.9 - 1.6: 5 768,94 0% Open 1997 176	3 4 2 2 14.	Dec Mer Jun Dapan M NOTION (UFFE) Dec Mer • UFFE tutu	Open 117-31 117-21 117-02 NAL LONG Y100m 100 Open 121.90 120.54 nes also trade	Latest 117-26 117-15 117-15 117-02 TERM JAP the of 1009 Close  ad on APT. Al	Change -0-05 -0-06 -0-04 PANESE G	High 118–16 118–06 117–02 OVT. BONS 121,98 120,63 st figs. are	Low 117-23 117-14 118-31 D PUTURE Low 121.84 120.49 for previous	Est. vol. 295,380 35,086 951 Est. vol 2203 1764 day.	359,595 86,865 12,518 Open int. 0
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Cass 17	Mer 0.37 0.81 0.84 1.28 1.28 70.288 Put 1.28 1.28 1.28 1.28 1.28 1.28 1.28 1.28	0.7: 0.9 - 1.6: 5 788,54 0% Open 1997 176	3 4 2 2 44. 720 109 int 9.76	Dec Mar Jun STRE LINE (UFFE) Dec Mar • UFFE tutu	Open 117-31 117-21 117-02 117-02 NAL LONG Y100m 100 Open 121.90 120.54 rass also tracks	Latest 117–26 117–15 117–15 117–02 TERM JAP Close close and on APT. All the control of the contr	Change -0-05 -0-06 -0-04  ANNESE Gr 6  Changa	High 118–16 118–06 117–02 OVT. BONS High 121,98 120,53 sst figu. are to	Low 117-23 117-14 116-31 D PUTURE Low 121.84 120.48 for previous	Est. vol. 295,380 35,086 851 2203 1784 day.	359,595 86,865 12,518 Open int. 0 0
1 3 3 2 2 3 3 2 3 3 2 3 3 2 3 3 3 3 3 3	Mer 0.37 0.61 0.84 1.28	0.7: 0.9 - 1.6: 5 788,54 0% Open 1997 176	3 4 4 2 2 1 km. 1 km. 1 720 009 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1	Dec Mer Jun  Japan  NOTIO (LIFFE tulu  LIFE tulu  Red Price £ 7.74 128 Jul 7.75 165 pd	Open 117-31 117-21 117-02  NAL LONG Y100m 100 Open 121.90 120.54 res also trada -3 1283 -3 1283	Latest 117–26 117–15 11	Change -0-05 -0-06 -0-04  ANNESE Gr 6  Changa	High 118–16 118–06 117–02 OVT. BONS High 121,98 120,53 sst figu. are to	Low 117-23 117-14 116-31 D PUTURE Low 121.84 120.48 for previous	Est. vol. 295,380 35,086 851 2203 1784 day.	359,595 86,865 12,518 Open int. 0 0
1 3 3 3 3 3 3 3 3 3 3 3 3 3 3 3 3 3 3 3	Mer 0.37 0.61 0.94 1.26 70.298 Pus of 10 125225 15395	0.7: 0.9 - 1.6: 5 788,54 0% Open 1997 176	3 4 4 2 2 14. 1 Int. 720 009 1 2.76 4.09 7.85	Dec Mer Jun Motto (LIFFE)  Dec Mer - UFFE tale  led Price £ .  7.74 128 jul dec   7.75 105 jul dec   7.75 105 jul dec   7.77 dec	Open 117-31 117-21 117-22 117-02  NAL LONG Y100m 100 Open 121.90 120.54 res also trade -3 1251 -3 1251 -3 1251 -3 1251 -3 1251	Latest 117-26 117-15 117-02 117-02 TERM JAP the of 1009 Cose	Change -0-05 -0-06 -0-04  ANNESE G  Change - I Open Intend 186 196 196 197 197 197 197 197 197 197 197 197 197	High 118-16 118-06 117-02 OVT. BONS 121.98 120.63 120.63 135.6 135	Low 117-23 117-14 116-31 D FUTURE Low 121.84 120.48 for previous	Est. vol. 295,380 35,086 851 2203 1754 day.	359,595 86,865 12,518 Open int. 0 0
Tress 9 1 7 1 2 pc 1 2 pc 1 7 1 2 pc 1	Mer 0.37 (0.81 0.84 1.26 - 70.298 Put 1.25 1.25 1.25 1.25 1.25 1.25 1.25 1.25	0.7: 0.9 - 1.6: 5 788,54 0% Open 1997 176	3 4 4 2 4 4 1 Int. 720 109 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1	Dec Mar Jun STRE LINE (UFFE)  Dec Mar  * UFFE tutu  LIFFE tutu  1.75 105 ptf 7.74 128 ptf 7.75 985 ptf	Open 117-31 117-21 117-02  NAL LONG Y100m 100  Open 121.90 120.54 res also trada  -3 1263 -3 1053 -3 1953 -4 1951	Latest 117-29 117-15 117-02 117-02 TERM JAF this of 1009 Cice and an APT. All this of 1009 Low 11993 Index 11993 I	Change -0-05 -0-06 -0-04  AMESE Gr 6  Change 1 Open Inten	High 118–16 118–06 117–02 OVT. BONS 121.98 120.53 st figs. av 1 (a) (b) (c) (c) (d) (d) (d) (d) (d) (d) (d) (d) (d) (d	Low 117-23 117-14 116-31 17-14 116-31 17-14 116-31 121.84 120.49 121.84 120.49 121.84 120.49 121.84 120.49 121.84 120.49 121.84 120.49 121.84 120.49 121.84 120.49 121.84 120.49 121.84 120.49 121.84 120.49	Est. vol. 295,380 35,086 851 2203 1784 day.	359,595 86,865 12,518 Open int. 0 0 1995
Tress 12 Tress 8 1 72pc 8pc 20 8pc 20 8pc 20 103	Mer 0.37 0.61 0.84 1.26 1.26 1.26 1.26 1.26 1.25 1.25 1.25 1.25 1.25 1.25 1.25 1.25	0.7: 0.9 -1.8: 1.8: 1.8: 1.8: 1.8: 1.8: 1.8: 1.8:	3 4 4 2 2 4 4 1 Int. 720 09 9 7.86 8.09 7.87 7.80 7.87	Dec Mer Jun Dec Mer Jun Dec Mer • LFFE tutu LFFE tutu 17.5 165-jul 17.5 165-jul 17.5 167-jul 17.	Open 117-31 117-21 117-02 117-02 NAL LONG Y100m 100 Open 121.90 120.54 ras also trada -3 1283 -3 1283 -3 1283 -3 1283 -3 1283	Latest 117-26 117-15 117-02 117-15 117-02 TERM JAP the of 1009 Cose 1975 Males 1975 120 1975 120 1975 120 1975 120 1975 120 1975 120 120 120 120 120 120 120 120 120 120	Change -0-05 -0-06 -0-04  ANNESE Gr Change - I Open Intend 96 96 97 97 97 97 97 97 97 97 97 97 97 97 97	High 118-16 118-06 117-02 OVT. BONS 121.98 120.63 120.63 120.63 135.9 135.9 135.9 135.9 135.9	Low 117-23 117-14 118-31 D FUTURE Low 121.84 120.48 for previous  - Yield 78 2.18 2 4.2 75 4.3 239 1.48 11 6.3 3.48 17 9.3 48 18	Est. vol. 295,380 35,086 851 2203 1784 day.	359,595 86,865 12,518 Open int. 0 0 1995
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1 3 3 0 0 1 0 0 1 0 0 1 0 0 1 0 0 1 0 0 1 0 0 1 0 0 1 0 0 1 0 0 1	Mer 0.37 0.61 0.64 1.26 -	0.7.0.9 1.8.1 2.1 2.1 2.1 2.1 2.1 2.1 2.1 2.1 2.1 2	3 4 4 2 4 4 1 1 Int. 720 009 1 7.80 7.80 7.87 8.811	Dec Mar Jun Morton (UFFE)  Dec Mar - Morton (UFFE)  Dec Mar - UFFE tala 1.76 1051-348 7.74 128-348 7.78 1011-17.8 7.87 122-3-7.86 1011-17.8 122-3-7.86 1011-17.8 122-3-7.86 1011-17.8 122-3-7.86 1011-17.8 101	Open 117-31 117-21 117-21 117-02  NAL LONG Y100m 100  Open 121.90 120.54 res also trada -\$ 1283 -\$ 1053 -\$ 1224 -\$ 1233 -\$ 1053 -\$ 1234 -\$ 1233 -\$ 1053 -\$ 1053 -\$ 1053 -\$ 1053	Latest 117-26 117-15 117-02 117-15 117-02 117-02 1009 1009 1009 1009 1009 1009 1009 10	Change -0-05 -0-06 -0-04  ANNESE G  Change I Open Intend 196 197 197 197 197 197 197 197 197 197 197	High 118-16 118-06 117-02  OVT. BONS 121-98 120.53 120.53 156-156 178-5	Low 117-23 117-14 116-31 D PUTURE Low 121.84 120.49 for previous 2 275 8 339 7 8 346 7 8 346 7 9 346 1 7 3.5116/2 3.55	Est. vol. 295,380 35,086 851 2203 1784 day.	359,595 86,865 12,518 Open int. 0 0 1935
Tress 12 Tress 12 Tress 12 Tress 12 Tress 11	Mer 0.37 0.61 0.84 1.26 1.26 1.26 1.26 1.26 1.25 1.25 1.25 1.25 1.25 1.25 1.25 1.25	0.7.0.9 1.66 - 1.66 - 1.67 - 1	3 4 2 2 14. Int. 7009 2.765 7.807 9.82	Dec Mer Jun Notion (LIFFE)  Dec Mer • LIFFE tutu  LIFFE tutu  1.74 128341  7.74 128341  7.75 105948  7.76 1019  7.87 1223  7.86 1019  7.87 1223  7.86 1019  7.87 1223	Open 117-31 117-21 117-22 117-02 NAL LONG Y100m 121-90 120.54 ras also trada -3 1283 -3 1083	Latest 117-26 117-15 117-02 TERM JAP this of 1009 Cose 0 APT. Add on APT. Add	Change -0-05 -0-06 -0-04  ANNESE Gr Change Change I Open Intent F 1981 F 197 F	High 118-16 118-06 117-02  OVT. BONS 121.98 121.98 120.53 ss figs. av 1 135.63	Low 117-23 117-14 118-31 17-14 118-31 17-14 118-31 121.84 120.49 121.84 120.49 121.84 120.49 121.84 120.49 121.84 120.49 121.84 120.49 121.84 120.49 121.84 120.49 121.84 120.49 121.84 120.49 121.84 121.84 120.49 121.84	Est. vol. 295,380 35,086 851 2203 1784 day.	359,595 86,865 12,518 Open int. 0 0 1995
Trees 12 Trees 24 Trees 34	Mer 0.37 0.61 0.64 1.26 - 1.26 - 1.26 - 1.25 2.25 15395 21-20-20-20-20-20-20-20-20-20-20-20-20-20-	0.7.0.9 1.66 - 1.66 - 1.67 - 1	3 4 4 2 4 4 1 Int. 720 09 7.85 7.80 9.82 8.11 10.01 10.25	Dec Mar Jun NOTION (UFFE)  Dec Mar LIFFE tata  LIFFE tata  1.74 128 Jul 1.75 105 Jul 1.77 105 107 Jul 1.77 122 2.736 104 2.736 104 2.738 108 2.738	Open 117-31 117-21 117-21 117-02  NAL LONG 100m 100  Open 121.90 120.54 -3 1053	Latest 117-26 117-15 117-02 117-15 117-02 117-02 1009 1009 1009 1009 1009 1009 1009 10	Change -0-05 -0-06 -0-04  ANNESE G  Change I Open Intend 10 pen Intend 1	High 118-16 118-06 117-02 0AT. BONS 121.98 120.83 120.83 120.83 120.83 13.63 1	Low 117-23 117-14 118-31 10-31	Est. vol. 295,380 35,086 951	359,595 86,865 12,518 Open int. 0 0 1995
Trees 12 Trees 24 Trees 34	Mer 0.37 0.61 0.84 1.26 1.26 1.26 1.26 1.26 1.25 1.25 1.25 1.25 1.25 1.25 1.25 1.25	0.7.0.9 1.66 - 1.66 - 1.67 - 1	3 4 4 2 4 4 1 I Int. 1720 309 9 7.867 9.822 8.11 10.01	Dec Mer Jun Notion (LIFFE)  Dec Mer • LIFFE tutu  LIFFE tutu  1.74 128341  7.74 128341  7.75 105948  7.76 1019  7.87 1223  7.86 1019  7.87 1223  7.86 1019  7.87 1223	Open 117-31 117-21 117-22 117-02 NAL LONG Y100m 121-90 120.54 ras also trada -3 1283 -3 1083	Latest 117-26 117-15 117-02 117-15 117-02 117-02 1009 1009 1009 1009 1009 1009 1009 10	Change -0-05 -0-06 -0-04  ANNESE G  Change I Open Intend 10 pen Intend 1	High 118-18 118-06 117-02  OVT. BONS 121.98 120.53 120.53 156.53	Low 117-23 117-14 116-31  D PUTURE Low 121.84 120.49 for previous  2 2/5 2 3.53 1 3 46 1 7 3.51 16/2 3 3.53 1 5 3.55 1 6 3.55 1 7 3.51 16/3 3 3 3 3 3 3 3 3 3 3 3 3 3 3 3 3 3 3 3	Est. vol. 295,380 851 851 vol. 2203 1784 ctr. 1774 1774 1774 1774 1774 1774 1774 177	359,595 86,865 12,518 Open int. 0 0 1895 — Law 1774 1654 1774 1654 1
Trees 12 Trees 24 Trees 34	Mer 0.37 0.61 0.64 1.26 - 1.26 - 1.26 - 1.25 2.25 15395 21-20-20-20-20-20-20-20-20-20-20-20-20-20-	0.7.0.9 1.66 - 1.66 - 1.67 - 1	3 4 4 2 4 4 1 Int. 720 09 7.85 7.80 9.82 8.11 10.01 10.25	Dec Mar Jun NOTION (UFFE)  Dec Mar LIFFE tata  LIFFE tata  1.74 128 Jul 1.75 105 Jul 1.77 105 107 Jul 1.77 122 2.736 104 2.736 104 2.738 108 2.738	Open 117-31 117-21 117-21 117-02  NAL LONG 100m 100  Open 121.90 120.54 -3 1053	Latest 117-26 117-15 117-02 117-15 117-02 11	Change -0-05 -0-06 -0-04  ANNESE Gr Changa -1 Open Intend 98 1 Open Intend	High 118–18 118–06 117–02  OVT. BONS 121.98 120.83 120.83 157.94 167.83 101.859 127.83 127.83 128.93 127.83 128.93	Low 117-23 117-14 118-31 17-14 118-31  D PUTURE  Low 121.84 120.48 for previous  (2) Phi (2) Phi (3) Phi (3) State 17 (4) 148 (5) 148 (6) 3.68 (7) 1.58 (6) 3.68 (7) 1.58 (8) 3.68 (7) 1.58 (8) 3.68 (8) 3.68 (8) 3.68 (9) 1.68 (9)	Est. vol. 295,380 851 2203 1784 day. *** + 4 4 - *** *** *** *** *** *** *** *** *	359,595 86,865 12,518 Open int. 0 0 0 1122, 105,4 1174, 2816,4 1174, 1854,1 1184, 1854,1 1184, 1854,1 1184,
Trees 12 Trees 24 Trees 34	Mer 0.37 0.61 0.64 1.26 - 1.26 - 1.26 - 1.25 2.25 15395 21-20-20-20-20-20-20-20-20-20-20-20-20-20-	0.7.0.9 1.66 - 1.66 - 1.67 - 1	3 4 4 2 4 4 1 Int. 720 09 7.85 7.80 9.82 8.11 10.01 10.25	Dec Mar Jun NOTION (UFFE)  Dec Mar LIFFE tata  LIFFE tata  1.74 128 Jul 1.75 105 Jul 1.77 105 107 Jul 1.77 122 2.736 104 2.736 104 2.738 108 2.738	Open 117-31 117-21 117-21 117-02  NAL LONG 100m 100  Open 121.90 120.54 -3 1053	Latest 117-26 117-15 117-02 117-15 117-02 1009 Cose	Change  -0-05 -0-06 -0-04  ANNESE Gr 6  Change  -1 -1 -1 -1 -1 -1 -1 -1 -1 -1 -1 -1 -1	High 118-16 118-06 117-02 0A/T. BONS 121.98 120.83 120.83 120.83 120.83 120.83 13.63	Low 117-23 117-14 118-31 118-31 121.84 120.48 121.84 120.48 121.84 120.48 121.84 120.48 121.84 120.48 121.84 120.48 121.84 120.48 121.84 120.48 121.84 120.48 120.4	Est. vol. 295.380 851 85 176 4 177 4	359,595 36,865 12,518 Open int. 0 0 1995
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Trees 12 Trees 24 Trees 24 Trees 34	Mer 0.37 10.61 0.64 1.26 - 1.26 - 1.26 - 1.26 1.26 1.25 1.25 1.25 1.25 1.25 1.25 1.25 1.25	0.7-0.9-1.88-1.89-1.89-1.188-1.997-1.78  Notes 5	3 4 2 4 1 Int. 7009 276 7.80 7.80 7.80 7.80 7.80 7.80 7.80 7.80	Dec Mar Jun   Dec Mar Jun   Dec Mar    Open 117-31 117-21 117-22 117-02 117	Latest 117-26 117-15 117-02 117-15 117-02 117-15 117-02 11	Change  -0-05 -0-06 -0-04  ANNESE Gr Changa  Changa  I Open Intend  18 19 19 19 19 19 19 19 19 19 19 19 19 19	High 118–16 118–16 118–06 117–02  OVT. BONS 120.63	Low 117-23 117-14 118-31 118-31 121.84 120.48 120.4	Est. vol. 295,380 35,086 951	359,595 36,865 36,865 12,518  Open int. 0 0 1995	
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8.18 11842 8.78 124 - 1051 - 104 - 1107, 9.11 1484; - 1334; - 1334; - 344 2.65 1251; 7.25 724; 4.33 1457, 4.33 1457, - 1204;

Over 15 years (9) 164.03 -0.20 164.36 2.03 12.13 20 yrs 7.95 7.93 8.41 7.98 7.96 8.54 8.04 8.02 8.89   Irreducementables (6) 187.09 -0.01 187.11 0.82 13.47   Irred.† 8.03 8.03   Irreducementables (6) 187.09 -0.01 187.11 0.82 13.47   Irred.† 8.03 8.03   Irreducementables (6) 187.09 -0.08 142.84 1.70 11.18   Irred.† 8.03 8.03   Irreducementables (5)   Irreducementables (6) 187.09 -0.08 142.84 1.70 11.18   Irred.† 8.03 8.03   Irreducementables (5)   Irreducementables (6) 187.09   Irreducementables (7)   Irreducementables (8)   Irre	UK Gilles	Mon Nov 20	Day's change 9	Fri 6 Nov 1	Accrued 7 Interest	xd adj. ytd		N	lov 20	Nov 17	Yr. a	Med po Nov 2	0 Nov 1	7 Yr. ago	Nov 2	) Nov	17 Yr	. age
Cover 15 yearns 19   164.03   -0.20   164.38   2.03   12.13   20 yrs   7.95   7.95   8.41   7.96   8.54   8.04   8.02   8.69   rendermations (6)   187.09   -0.01   187.11   0.92   13.47   bred.†   8.03	1 Up to 5 years (22)	122.49	_	122.4	1.99	9.72	. 5 утв		7.24	7.23	8,44	7.25	7.23		7.32	7,31		
Cheer   15   yearra   19   164,03   -0.20   167,171   0.82   12,13   20   yrs   7,95   7,93   8,41   7,96   7,96   8,54   8,04   8,02   8,68   renderentations   19   197,09   -0.01   197,11   0.82   13,47   rend.   1   8,03     8,03     -1.02   -1.02     -1.02     -1.02     -1.02     -1.02     -1.02     -1.02     -1.02     -1.02     -1.02     -1.02     -1.02     -1.02   -1.02     -1.02     -1.02     -1.02     -1.02     -1.02     -1.02     -1.02     -1.02     -1.02     -1.02     -1.02     -1.02   -1.02     -1.02     -1.02     -1.02     -1.02     -1.02     -1.02   -1.02     -1.02   -1.	2 5-15 years (21)	147.05	-0.09	147.18	1.31	11.73	15 yrs		7.89	7,87	8.43	7,94	7.92	8.54	8.00	7.99	•	2.79
All stocks (58) 142.72 -0.06 142.84 1.70 11.18		164.03	-0.20	164.38	2.03	12.18	20 yrs		7.95	7.93	8.41	7.98	7.96	8.54	8.04	8.03	? 8	1.69
Control   Cont	Irredeemables (6)	187.09	-0.01	187.11	0.82	13,47	fred.†		8.03	6.03				j ,				
Up to 5 years (1)	All stocks (58)	142,72	-0.08	142.84	1,70	11.18								/.		-		
Up to 5 years (1)					•				-	b:0e#	on 5%		•	Infintic	10%			
Over 5 years (11) 187.75 -0.05 187.84 1.18 4.45 Over 5 yea 3.58 3.55 3.85 3.35 3.34 3.65  All stocks (12) 187.77 -0.05 187.86 1.14 4.54  TFUKED INTEREST INDICES  Nov 20 Nov 17 Nov 16 Nov 15 Nov 14 Yr ago Hight Low Nov 17 Nov 16 Nov 15 Nov 14 Nov 13 Nov 13 Nov 17 Nov 16 Nov 15 Nov 14 Nov 13 Nov 13 Nov 17 Nov 16 Nov 15 Nov 14 Yr ago Hight Low Nov 17 Nov 16 Nov 15 Nov 14 Nov 13 Nov 13 Nov 17 Nov 16 Nov 15 Nov 14 Nov 13 Nov 13 Nov 17 Nov 16 Nov 15 Nov 14 Nov 13 Nov 18 Nov 17 Nov 16 Nov 15 Nov 14 Nov 13 Nov 18 Nov 17 Nov 16 Nov 15 Nov 14 Nov 13 Nov 18 Nov 17 Nov 16 Nov 15 Nov 14 Nov 13 Nov 18 Nov 17 Nov 16 Nov 17 Nov 16 Nov 15 Nov 14 Nov 13 Nov 18 Nov 17 Nov 16 Nov 15 Nov 14 Nov 13 Nov 18	ndex-Baland							•										
Over 5 years (11) 187.75 -0.05 187.86 1.16 4.45 Over 5 yrs 3.58 3.55 3.85 3.35 3.34 3.65  All stacks (12) 187.77 -0.05 187.86 1.14 4.54  All stacks (12) 187.77 -0.05 187.77 -0.05 187.77 187	Up to 5 years (1)	194.59	-0.04	194.67	' 0.61	8.37	Up to	5 vrs	2.7	75 2	.72	3.89		1.54 1.5	51 2	2.64		
### TFIXED INTEREST INDICES  Nov 20 Nov 17 Nov 16 Nov 15 Nov 14 Yr ago High* Low*  Nov 17 Nov 16 Nov 15 Nov 14 Nov 13 Nov 15 Nov 14 Yr ago High* Low*  Nov 17 Nov 16 Nov 15 Nov 14 Nov 13 Nov 16 Nov 15 Nov 14 Yr ago High* Low*  Nov 17 Nov 16 Nov 15 Nov 14 Nov 13 Nov 16 Nov 15 Nov 14 Yr ago High* Low*  Nov 17 Nov 16 Nov 15 Nov 14 Nov 13 Nov 16 Nov 15 Nov 14 Yr ago High* Low*  Nov 17 Nov 16 Nov 15 Nov 14 Nov 13 Nov 16 Nov 15 Nov 14 Yr ago High* Low*  Nov 17 Nov 16 Nov 15 Nov 14 Nov 13 Nov 16 Nov 15 Nov 16 Nov 15 Nov 14 Nov 13 Nov 16 Nov 15 Nov 14 Nov 13 Nov 16 Nov 15 Nov 16 Nov 15 Nov 16 Nov 15 Nov 16	Over 5 years (11)	187.75	-0.05	187.84	1.16	4.45	Over t	5 VES	. 3.5	<b>36</b> 3	.55	3.85		3.35 3.3	34 :	3.65		
TFIXED INTEREST INDICES   Nov 20 Nov 17 Nov 16 Nov 15 Nov 14 Yr ago High* Low*   Nov 17 Nov 16 Nov 15 Nov 14 Nov 13 Nov 14 Nov 13 Nov 15 Nov 14 Nov 13 Nov 15 Nov 14 Nov 15 Nov 14 Nov 15 Nov 14 Nov 15 Nov 14 Nov 15 Nov 15 Nov 14 Nov 15 Nov 15 Nov 14 Nov 15 Nov 15 Nov 15 Nov 14 Nov 15 Nov			-0.05	187.80				•										
Second   State   Second   State   Second   Sec	T FIXED INTERI	est in					+	ĞŁT	EDG	ED /				S				
Supplementary   Supplementar	lovt. Secs. (UK) 94.58 bed interest 113.36 for 1995. Government Securitie	94.73 113.53 s high since	94.92 9 113.09 11	4.33 94.  2.82 112.  2.82 8/	35 91.74 1 76 108.15 1	95.51 90. 14.66 108	.22 .77	5-day a	- Norage	_		98.0 93.6	109.3 90.3	108.5 85.6	7:	9.5 9.7	72. 79.	7
Deey Medi Treesury 5 97	ovt. Secs. (UK) 94.58 tred interest 113.36 for 1995. Government Securitie i and Pixad Interest 1825. SE	94.73 113.53 a high sino activity ind	94.92 9 113.09 11 complation loss rebased	M.33 94. 12.82 112. 12.7.40 97 1 1974.	35 91.74 178 108.15 1 1933, low 49.18	95.51 90. 14.66 108 3/1/79, Ros	.22 .77 d Interess.	5-day a	worage a compi	ettors 13	3.87 (21/	98.0 93.6	109.3 90.3	108.5 85.6	7:	9.5 9.7	72. 79.	7
Day Med Treesury 82 05	ovt. Secs. (UK) 94.58 tool interest 113.36 to 1995. Government Securiti and Paud Interest 1828. SE  FIFISMA INTERN tool are the baset international	94,73 113,53 a high since activity indi	94.92 § 113.09 11 a compliator loss rebased  A E S 0	M.33 94. 12.82 112. 127.40 97 11974.	35 91.74 178 108.15 1 1933, low 49.18	95.51 90. 14.66 108 3/1/79, Ros	.22 .77 d Interest prices st	5-day a high sire 7:10 pst	worage ca compli	etter: 13	3.87 (21/ 0	98.0 93.6	109.3 90.3	108,5 85,6 73) . Bass 10	7: 7: 0: Gaven	9.5 9.7 mment Se	72. 79. curties	7 8
Day Med Treesury 82 05	ovit. Secs. (UR) 94.58 tool interest 113.36 or 1995. Governmen Securiti and Pixed interest 1826. SE  INTEREST INTEREST  Interest the bisest intermedional Issue S. DOLLAR STRAIGHTS	94.73 113.53 a high since activity indi  ATTION bonds for activity and Bild	94.92 S 113.09 11 a compliation loss rebased AL E(O).	M.33 94. 12.82 112. 12.7.40 94 11974. 11975 11976 11976 11976	35 91.74 78 108.15 1 1/35), low 49.18 1 1/10 = the secondary management 897 _	95.51 90. 14.66 108 2/1/75 Pho arkst. Latest	22 .77 d Interest prices st insued 	5-clay a high sing	on Nov	etter: 13: ember 2 Chg. 1	3.87 (21/ 0 Teld	98.0 93.6 1/94) , law !	109.3 90.3 90.63 (\$41.0	108.5 85.6 79) . Beaus 10	7: 7: Govern	9.5 9.7 mment Se	72. 79. curties	7 8 15/
N Ambro Bank 74; 65	ort. Secs. (URC) 94.58 cod interest 113.36 or 1906. Government Securitie and Pluad Interest 1828. SE  INITIAL INITIAL ted are the baset interestorial foot b. DOLLAR STRAIGHTS by Med Treesury 5 97	94.73 113.53 a high sine activity ind  ATTION! bonds for ad Bid	94.92 9 113.09 11 a compliator loss rebased  ALL E(0) which there  Offer Ci	M.33 94. 2.82 112. 127.40 82/ 11974.  NID SIEI Is an actequate, 149. Yield	35 91.74 78 108.15 1 5/35, low 49.18   5/10 = 1 4/10 = 1 5/40 = 1	95.51 90. 14.66 108 p./1/75p. Flow priost. Leteot	22 .77 d Interest prices st lesued 	7:10 per 106 <sup>1</sup> s 105 <sup>1</sup> s	on Nov	ettor: 13 ember 2 Chg. 1	3.87 (21/ 0 7eki 4.33 / 4.24 /	98.0 93.6 1794) , low !	109.3 90.3 90.53 (8/17)	108.5 85.8 73) . Beaus 10 1884446 182 1000	7: 7: 0: Govern	9.5 9.7 mment Se Other	72. 79. curties	7 8 15
can Dev (Bk 7 <sup>1</sup> g 23 500 109 <sup>2</sup> g 104 <sup>1</sup> g 7.08 World Bank 5 <sup>2</sup> g 03 3000 97 <sup>2</sup> g 97 <sup>2</sup> k <sup>1</sup> g 8.26 EB 8 03 £ 1000 100 <sup>2</sup> g 1 20 <sup>2</sup> g 1 100 100 <sup>2</sup> k 103 <sup>2</sup> g 6.  ###################################	wrt. Secs. (LRC) 94.58 ted interest 113.36 tr 1986. Government Securitie and Fixed interest 1828. SE  INTEREST SECURITIES that are the baset intermedional test  DOLLAR STRAIGHTS top Mail Tresoury 5 7 5 5 5 5 5 5 5 5 5 5 5 5 5 5 5 5 5	94,73 113,53 a high since activity indi ATTION bonds for red ed Bid 1000 894	94.92 9 113.09 11 a compliant cos rebased  AL BO  which there  Offer C  99% 100%	M.33 94. 2.82 112. 127.40 82. 1 1974.  NID SIE: 15 an actequates. Yield  5.76 45 6.45	35 91.74 78 108.15 1 1733, low 40.18   1735, low 40.18   1710 = 1810   1810   1	95.51 90. 14.66 108 2/1/75, Phos	22	7:10 per Bid 1027 <sub>6</sub>	o on Nov Other 105% 105%	ettore 13:	0 Neid 4.33 / 4.24 / 6.50 (	98.0 93.6 1.794) . low : bisence Leica ldiish Land 8	109.3 90.3 90.5 90.53 (90.0 90.53 (90.0	108.5 85.6 79) . Beaus 10 1884440 1 2	7: 7: 0: Govern Bid 99-1: 108 80-1:	9.5 9.7 sment Se Ottor 99 <sup>5</sup> g 106 <sup>3</sup> g	72. 79. curties	7 8 15/
eth: Produce Pg 98 1000 1044; 105 5.83	ovit. Secs. (UK) 94.58 cod leterest 113.36 or 1905. Government Securitie and Fixed interest 1828. SE  INITIAL	94.73 113.53 a high since activity and Std 100 1004 000 1004 000 1004	94.92 § 113.09 11 a compliator cos rebased  ALES (a) which there  Offer G  § 994, § 1005, § 105	M.33 94. 2.82 112. 2.127.40 52/ 1 1974.  N D SIE; 1s an actequateg. Yield  -1 <sub>8</sub> 6.45 6.70	35 91,74 78 108,15 1 735, low 49,18   W/(e) = day secondary ma Sweden 8 87 _ United Kingdon Volkswagen half World Bank 0 1	95.51 90. 14.65 108 St//75g. Float arket. Letect	22	7:10 per Bid 1027 <sub>1</sub> 277 <sub>4</sub>	o on Nov Other 1057 <sub>8</sub> 1053 1053 271 <sub>2</sub>	ettore 13:	3.87 (21/ 0 7leid 4.33 / 4.24 / 6.50 (6.89 (	98.0 93.6 1.794) , low : district laids learnant 64	109.3 90.3 90.3 90.5 90.5 90.5 90.5 90.5 90.5 90.5 90.5	108.5 85.6 79) . Beaus 10 1asued 15 1000 150	7: 7: 0: Govern Bid 99-1: 108 80-1:	9.5 9.7 sment Se OSar 95°s 108°s 94°s	72. 78. curties	7 8 15/
arth 92 00	ort. Secs. (URC) 94.58 cod interest 113.36 or 1905. Government Securities and Plead interest 1828. SE  INSTANTINE SE  INSTANTINE SE  INSTANTINE SE  BOULAR STRAIGHTS by Mail Tressury 69.05 N Ambro Bark 74, 05  Land De 82.74, 05  Land De 92.74, 25  Land De 92.74, 23	94.73 113.53 a high since activity and since activity activity and since activity activity and since activity activity and since activity ac	94.92 S 113.09 11 a compliation loss rebased ALL E(0) which there Offer Cl 105 105 105	M.33 94. 2.82 112. 2.82 1127. 40 92/ 1 1974.  ND SIE; Is an actequate, Yield  5.78 6.45 6.45 6.70 -1, 7.03	35 91,74 78 108,15 1 735, low 49,18   W/(e) = day secondary ma Sweden 8 87 _ United Kingdon Volkswagen half World Bank 0 1	95.51 90. 14.65 108 St//75g. Float arket. Letect	22	7:10 per Bild 1027 <sub>1</sub> 277 <sub>4</sub>	o on Nov Other 1057 <sub>8</sub> 1053 1053 271 <sub>2</sub>	efforc 133	3.87 (21/ 0 7leid 4.33 / 4.24 / 6.50 (6.89 (	98.0 93.6 1.794) , low : district laids learnant 64	109.3 90.3 90.3 90.5 90.5 90.5 90.5 90.5 90.5 90.5 90.5	108.5 85.6 79) . Beaus 10 1asued 15 1000 150	7: 7: 7: 2: Govern  Bid 99 1: 8: 108: 83 1: 99 1: 99 1: 99 1: 108:	9.5 9.7 sment Se Ottor 995 <sub>8</sub> 105 <sub>8</sub> 94 <sup>1</sup> 4 99 <sup>3</sup> 4	72. 78. curties	7 8 8 8 9 7.
ten-Wuert L-Fin 8½ 00 1000 100 <sup>1</sup> 2 107 <sup>1</sup> 4 6.03 Asien Dev Benk 0 16 500 38 <sup>5</sup> 2 39 -½ 4.82 MSSC Holdings 11.89 02 £ 153 115 <sup>1</sup> 4 116 <sup>1</sup> 4 4 8 14 Nord Geometrien 7 69 1000 105 <sup>1</sup> 5 100 <sup>1</sup> 6 5.89 Austria 42 00 1000 105 108 <sup>1</sup> 4 2.97 baly 10 <sup>1</sup> 2 14 £ 400 111 111 <sup>1</sup> 4 3.	wrt. Secs. (LRC) 94.58 ted interest 113.36 tr 1986. Government Securitie and Fixed interest 1828. SE  INTEREST A STANSON INTEREST  BOULAR STRAIGHTS  BOULAR	94.73 113.53 a high since activity and side side side side side side side sid	94.92 S 113.09 11 a compliation loss rebased ALL E(0) which there Offer Cl 105 105 105	M.33 94. 2.82 112. 2.82 1127. 40 92/ 1 1974.  ND SIE; Is an actequate, Yield  5.78 6.45 6.45 6.70 -1, 7.03	35 91,74 78 108,15 1 735, low 49,18   W/(e) = day secondary ma Sweden 8 87 _ United Kingdon Volkswagen half World Bank 0 1	95.51 90. 14.65 108 St//75g. Float arket. Letect	22	7:10 per Bild 1027 <sub>1</sub> 277 <sub>4</sub>	o on Nov Other 1057 <sub>8</sub> 1053 1053 271 <sub>2</sub>	efforc 133	0 7 8.87 (21/ 0 7 8.63 / 6.50 E 6.50 E 6.50 E	98.0 93.6 1794) , low : little Leica Mittel Land & letermank &ly 35 8 (35 g.	109.3 90.3 50.63 (2017) 50.63 (2017) 11 <sup>3</sup> <sub>2</sub> 97 £ 98 £	108.5 85.6 79) . Bears 10 lastured \$2 1000 150 1000	7: 7: 7: 2: Govern  Bid 99 8 106 93 1 100 99 1 100 9 1	9.5 9.7 mment Se Other 99 <sup>5</sup> s 103 <sup>3</sup> s 94 <sup>3</sup> s 100 <sup>2</sup> s	72. 78. curties	7 8 8 8 9 7: 7:
rk Ned Germanten 7891000 105% 105% 5.89 Austria 42 001000 106 106% 2.97 & aby 10/2 14.5400 111 1114 3.0	ovt. Secs. (UR) 94.58  roted interest 113.36  roted interest 128. SE  INFO SECTION SECURITY S	94.73 113.53 a high since activity and bonds for activity and Bild 000 894 000 1004 000 1045 500 1094	94.92 £ 113.09 11 a compliance loss rebased  ALL EO  which there Offer Cl  \$ 99 <sup>1</sup> 4 100 <sup>5</sup> 5 105 105	M.33 94. 2.82 112. 2.127.40 9/ 1 1974.  ND SEI; Is an actequit 1 578 578 670 -1/2 7.86 5.80	35 91.74 78 108.15 1 735), low 40.18   3/10=  Sweden 8 97  United Ningdon World Bank 0 1 World Bank 0 5/2	95.51 90.14.66 108.3/1/76g, Fixal strict, Leftect. 17 97	22 .77 d Interest prices st insued 2500 1000 2000 3000	7:10 per Bild 1027 <sub>1</sub> 277 <sub>4</sub>	o on Nov Other 1057 <sub>8</sub> 1053 1053 271 <sub>2</sub>	efforc 133	0 7 8 8 8 8 8 8 8 8 8 8 8 8 8 8 8 8 8 8	98.0 93.6 1794) . low : Micros Leice Micro	109.3 90.3 90.5; (27.7 80.5; (27.7 80.5; (27.7 80.5; (27.7 80.5; (27.7) 80.5; (27.7) 80.5; (27.7) 80.5; (27.7) 80.5; (27.7) 80.5; (27.7)	108.5 85.6 79) . Beaus 10 1esued \$2 1000 100 100	7: 7: 7: 7: 7: 7: 7: 7: 7: 7: 7: 7: 7: 7	9.5 9.7 9.7 95°s 105°s 94°s 100°s 100°s	72. 78. curties	7 8 15/ 8.15/ 8.15/ 9.1 7.1 6.1
	ovt. Secs. (UR) 94.58  rood interest 113.36  or 1965. Government Securitie and Fixed interest 1826. SE  INTEREST INTEREST  BOULAR STRANSHIS  boy Ned Treesury 5º 26  IN Anthro Bank 7º 405  IN Anthro Bank 7º	94.73 113.53 a high sine activity incl bonds for sed Sid 000 99 <sup>3</sup> 000 109 <sup>3</sup> 000 109 <sup>3</sup> 000 109 <sup>3</sup> 400 109 <sup>3</sup>	94.92 113.09 11 a compliant to loss rebased to se rebased	M.33 94, 2.82 112, 2.127,40 8/ 1 1974. NID SIE; is an actequate by. Yield 5.76 6.70 5.70 5.89	35 91.74 78 108.15 1 735), low 49.18   Willel Electronicity management 887 _ United Kingdon Volksweigen 1881 0 1 World Bank 0 1 World Bank 556 SWISS FRANCE	95.51 90 14.66 108 3/1/79, Fixe arket, Letect 17 <sup>1</sup> e 97 Fix 7 03 5 13 15 15 16 17 18	22 .77 d Interest prices st lesued 	7:10 per 106 <sup>3</sup> ; 102 <sup>7</sup> ; 27 <sup>1</sup> ; 97 <sup>5</sup> g	on Mov Offer 105% 105% 103 2712 8734	etter: 13	0 (laid 4.33 / 4.24 / 6.50 (l 6.89 (l 6.25 (l	98.0 93.6 1.794 , low : literoe Leica literi Land 8 lenman 61, 128 8 03 2 letteron 107 <sub>2</sub> 9 leneon 107 <sub>2</sub> 9	109.3 90.3 90.5 90.5 90.5 90.5 90.5 90.5 90.5 90.5	108.5 85.6 85.6 1884a 10 1884a 10 100 100 100 100 100 100 100	7: 7: 7: 7: 7: 7: 7: 7: 7: 7: 7: 7: 7: 7	9.5 9.7 9.7 9.7 9.7 103 <sub>3</sub> 94 <sup>1</sup> <sub>4</sub> 993 <sub>5</sub> 1004 <sub>2</sub>	72. 79. curtico	7 8 157 8 8 8 9 7,1 6 7,1
	ovt. Secs. (UR) 94.58 tool interest 113.36 or 1905. Government Securitie and Pacel interest 1829. SE  INTERIOR INTERIOR  BOULAR STRAIGHIS by Ned Treesury 5'97 by Ned Treesury 5'97 by Ned Treesury 5'9 05 IN Arrivo Bark 7's 05 Interior De 97 1'9 28 Interior Treesury 5'9 05	94.73 113.53 a high since activity indi acti	94.92 113.09 11 a completion cos rebased Offer G	M.33 94, 2.82 112. 2 127.40 8/ 1 1974. NID SIEI Is an actequates. Yield 18. 47 66.7 6.7 5.80 5.80 6.03	35 91,74 78 108.15 1 78 108.15 1 78 108.15 1 78 108.15 1 78 108.15 1 78 108 108 108 108 108 108 108 108 108 10	95.51 90 14.66 108 3/1/79, Fhan arket, Lutiect 17.16 97 Fn 7 03 — 5 5 03	222 .77 d Interest prices at lesued 	7:10 per Elid 102 <sup>3</sup> ; 102 <sup>3</sup> ; 27 <sup>3</sup> ; 35 <sup>5</sup> ;	o on Nov Offer 105% 103 2712 9714	etion: 135 ember 2 Chg. 1	3.87 (21/ 0 0 164d 4.33 / 4.24 / 6.50 (6.69 (1.69) 6.82 (1.69)	98.0 93.6 1794 I low S Illiance Leica Milin Land & Jananan 65 Janan 10 <sup>3</sup> g S Janan 10 <sup>3</sup> g S	109.3 90.3 50.63 (\$0.77 11 <sup>2</sup> <sub>3</sub> 97 £ 7 <sub>2</sub> 23 £ 66 £	108.5 85.6 85.6 85.6 10 10 10 10 10 10 10 10 10 10 10 10 10	7: 7: 7: 7: 7: 7: 7: 7: 7: 7: 7: 7: 7: 7	9.5 9.7 Parament Se 98 <sup>5</sup> s 100 <sup>5</sup> s 100 <sup>5</sup> s 101 <sup>5</sup> s	72. 78. rounties	7 8 157 8. 8. 8. 9. 7.1 6.7 7.1 8.

Listed are the latest international bonds for which there is an adequate secondary market, Letect prices at 7:10 pm on November 20 feaced Skid Offer Chg. Yield leaved Skid Offer Chg. Yield leaved Skid Offer Chg. Yield														
facused	Bid	Offer	Chg.	Yfeld	lecued	飿	Offer	Chg.	Yleid	lesund	Bid	Otter	Chg.	Ylek
U.S. DOLLAR STRAIGHTS					Sweden 8 97 2500	1061	106%		4.33	Abbey Nati Treesury 8 03 C 1000	99 <sup>3</sup> 8	9958	4	8.10
Althory Med Treasury 5 97 1000 Althory Med Treasury 6 <sup>1</sup> 2 03 1000	1007 53 <sub>1</sub> 8	100°s	ᆚ	5.76 6.45	United Kingdom 7 <sup>1</sup> 8 97 5500 Volkswegen Intl Fin 7 03 1000	1054 1024	1053 <sub>8</sub> 103	4	4,24 650	Access van insesury 8 to \$ 1 1000  Attient Lains 11 <sup>5</sup> g 97 £ 1000  Bitlieh Land 87g 23 £ 150  Denmark 67g 68 £ 600  EB 8 03 £ 1000  Hallian 10 <sup>5</sup> g 97 £ 100  Henson 10 <sup>5</sup> g 97 £ 500  HSSC Holdings 11,85 02 £ 153  Lain 10 <sup>5</sup> g 15 2 200	106	1063	-	6.87
ABN Ambro Bank 74, 05 1000	1045	105	-8	6.70	World Benk 0 15 2000	274	2712	44	6.89	Denmark 6% R8 9 Ann	934 934	94 <sup>1</sup> 4 99 <sup>3</sup> 2	4	9.74 7.00
African Day Pk 73, 28 SM	1093	104	ᅸ	7.08	World Sank 5% 03 3000	975	973	41g -1g	826	BB 8 03 9	1005	100%	귝	7.87
Alberta Province 7°s 98 1000 Austra 8°2 00 400	104¾ 108	105 109%		5.83 5.99	SMSS FRANC STRAIGHTS					Hallax 10 <sup>3</sup> g 97 £ 100	1044	10:12	-	6.78
Bacian-Wuart L-Fin 8 <sup>1</sup> s 00 1000	107Î3	1074		6.03		385	39	يا_	4.82	Hanson 10% 97 E 500	1053	108 118 <sup>1</sup> a		7,05 8.49
		1037		5.89	Asien Dev Benk 0 16 500 Austria 4 2 00 1000	106	1064	•	297	taly 10 <sup>1</sup> 2 14 £ 400	111	1111	-tg -tg	9.22
Bayer Vereintik 6 <sup>1</sup> / <sub>2</sub> 00 500 Belgium 5 <sup>1</sup> / <sub>2</sub> 08 1000 BFGE 7 <sup>1</sup> / <sub>4</sub> 97 150 Bellish Columbia 7 <sup>1</sup> / <sub>4</sub> 02 500 Bitish Gam 0 21 1600 Canada 6 <sup>1</sup> / <sub>2</sub> 97 2000 Chang Rong Fin 5 <sup>1</sup> / <sub>2</sub> 98 500 Chang Rong Fin 5 <sup>1</sup> / <sub>2</sub> 98 500	1073	1075g 95	4	6.07 6.36	Council Europe 44 98250	10412	105		265	Bally 10½ 14 £     400       Japan Dev Bit 7 (00 £     200       Land Secs B <sup>1</sup> 2 07 £     200       Ordation 11½ 00 £     100       Powergian 8½ 03 £     250       Sentern Terra 11½ 80 £     150       Token Terra 10½ 00 £     00	9812	983,	-1	7.37
BECE 73 97	1004	1024	ᆂ	525	BB 3 <sup>1</sup> <sub>4</sub> 99 1000 BB 3 <sup>1</sup> <sub>4</sub> 99 1000 BB 6 <sup>1</sup> <sub>5</sub> 04 90 Inter Anne Dev 4 <sup>1</sup> <sub>5</sub> 03 600	100,5	105 <sup>1</sup> 2	+18	2.78 2.63	Land Secs 8 <sup>1</sup> 2 07 £ 200	104%	1054	-30	8.79
British Columbia 73, 02 500	1075	1077	•	629	28 64, 04 300	115	116	4	485	Poweroan 89: 03 9 250	1135g 1033g	114 1035a	ı,	7.83 8.23
British Gen 0 21 1500	1412	14%	ᄺ	7.72, 5.85	Firland 71, 99 300	1143	11412	4	325	Severn Trant 11 <sup>1</sup> 2 88 £ 150	112	1123	4	7.58
Cheung Kong Fin 5 <sup>1</sup> 2 98 500	1014 96	101 <sup>3</sup> 2	44	7.09	Inter Area Day 43, 03	115½	116 1054		3.94 3.97	Tokyo Bec Power 11 01 £ 150 TCNZ Fin 94, 02 NZ\$ 75	1134	1143	7	7.80
Criene (*2 04	984	97	4	7.23	Orderto 64, 03 400 Outbook Hydro 5,08 100 SNCF 7 04 450 Sweden 44, 03 500	1124	113	+4	4.16	World Bank 121 <sub>2</sub> 97 NZ\$ 250	108/2 107 <sup>1</sup> 2	109 <sup>1</sup> 2 108		7,55 7,79
Credit Fonder 91 <sub>2</sub> 99	1104	11012		5.93 5.67	Ouebec Hydro 5.08 100	9912	100	412		Canadat Local 6 01 FFr	07	974		5.62
Fest Japan Rollingu B <sup>3</sup> s D4	101	100½ 101¾	3	5.67 6.46	Sworten 4% 05 500	1194 1043	120 <sup>1</sup> 4 105 <sup>1</sup> 4		4.28 4.09	Elec de Franca 8%, 22 FFr 3000	108 <sup>1</sup> 2	1097	<u>۽</u> د	7,88
ECSC 8 <sup>1</sup> 4 96 193	102%	102 k	•	5.81	Water Sank () 21 700	284	2912	-34	491	SNCF 94 97 FFr 4000	1045	105		5.66
EB 8 04 500	981	88,5		629	World Bank 7 01 600	1163	117	•	3.55	FLOATING RATE NOTES				
ESC 49, 68 193 EB 8 04 500 EB 94, 97 1000 Be de Pance 9 98 200 6-Im Bank Japan 8 02 500 E-John Bank Japan 8 02 500 Feld Home Loan 74, 99 1500 Feld Home Loan 74, 99 1500	1054	107 107	,¹g	5.56 5.83	YEN STRAIGHTS		-			lestad	Bid	i Of	ler -	Сери
Ex-im Bank Japen 8 02 500	1094	10912	- 6	622	Fig. 5 (2)	113%	114	44	1.50	Abbey Nati Treesury -4 99 1000	89.70	) 90	77	5.8125
Export Day Corp 812 98 150	1085	109		5.86	Credit Forcier 4 <sup>3</sup> s 02	110 <sup>1</sup> 8	110%	J,	306	Barksmerica   69	99.66	99.	.75	6.000C
Fed Home Loan 74: 99	1064	104 <sup>1</sup> 2 108 <sup>1</sup> 2		5.90 6.30	Ex-Em Sent Japan 43 05 105000	120% 110%	1207	هاب.	1.64	Constant DD	100.11			4,4375
Ficiand 6% 97 3000	1024	1024		5.70	Inter Amer Dev 714 00 30000	123%	111 <sup>1</sup> 2 124	**	2.81 1.70	CCCE 0 05 Scu 200	99.34 99.37			5.625 5.678
Ford Motor Credit 6 <sup>5</sup> 4 96 1500 Ind Bk Japan Ro 7 <sup>7</sup> 2 97 200	100%	100%	ᅶ	6.03	Inter Amer Dev 7 <sup>1</sup> 4, 00	10512	1055	7	245	Character US En Trace	AD 20			5,7500
ind Bk Japan Rn 74; 97 200	102 <sup>1</sup> 4 107 <sup>2</sup> 4	102 <sup>5</sup> 8 108	4	6.11 6.37	Jupan Dev Ek 5 99	113%	114	44	1.29	Credit Lyonneis & 00 300 Credit Lyonneis 0.30 93 1250 Denmerk -1 <sub>6</sub> 97 1000	97.78			5.8750
Intl Pinence 54, 99	86¾	20	-4	6.59 1	Normay 5% 97 150000	1234 108L	1233 <u>.</u> 1064	+14	2.21 0.39	Denmark -1, 97 1000	100.03 99.98			8.2375 5.7500
haly 6 03 2000	965	95%	_	6.88	Norway 5 <sup>3</sup> g 97 150000 SNCF 6 <sup>3</sup> g 00 30000	121	1211	₽ <b>L</b> a	1.63	ALGERTAL HERBOOK OF RED DAY 1000	100.03			L1484
1500 have the state of the stat	93 110	93 <sup>1</sup> 2 110 <sup>1</sup> 4	7	7.61 6.08	Span 54, UZ	1185	119 <sup>1</sup> e	+14 110	249		100,03	100	20 (	6.12 <b>5</b> 0
Inter-Area Dev 7½ 05	98	95 <sup>1</sup> 2	J,	681	World Bank 5½ 02 250000	108 <sup>5</sup> 2 117 <sup>5</sup> 2	1084 1174	44	0.72 2.32	100   100	100.02 89.70			5.7600 5.7812
LTCB Fin 8 97 200	1014	1021-	•	624			1117-18	7	Zaz	Mil Bank Iral 4 99 500	99.99			5.1484
Korea Bec Power Pag US	1054	105 <sup>1</sup> 2 102 <sup>1</sup> 4		6.37 5.60						1500 haby 1, 96 2000	89.79		<i>5</i> 5 (	8,0000
Ontario 7% 03 3000	1055	105%		6.49	Aniand 8 04 LFr 5000 Germanos Lux 9 <sup>1</sup> s 99 LFr 1000	1047g	105% 106%		7.27 8.45			1000		8, 1250 5,0075
Oster Kontrollbenk 8 <sup>1</sup> 2 01	110%	111		6.08	IKE Dauž Industrik 8½ 03 LFr 3000	105 <sup>1</sup> 2	106 <sup>1</sup> 2		7.47	1000   1000	81.75			5.9865
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#### CURRENCIES AND MONEY

#### MARKETS REPORT

# Markets cast wary eye over US budget deal

By Phillip Gawith

The dollar yesterday slipped lower in European and early New York trading as earlier optimism about a budget deal in the US gave way to scepticism about whether anything much had actually been

achieved. With no further budget nego-tiations scheduled until after the Thanksgiving weekend, the dollar looks likely to continue in the recent narrow range. After trading as high as Y102.75 in Asia, the dollar then lost nearly two yen to trade around Y101 in New York. Against the D-Mark it was trading at DM1.4050. These compare to Friday's closing

prices in London of Y102.25, and DM1.4048. The dollar's early strength helped sterling, but the two slipped lower in the afternoon, the pounds trade weighted index finishing at a new low of 82.2, after opening at 82.5. Against the D-Mark it

finished at DM2.1842, from traders in Europe had taken DM2.1803, while against the the view that nothing more dollar it closed at \$1.5463, from \$1,5521.

In Europe the main focus of activity was the cut in Finnish interest rates, with the tender rate falling by 25 basis points to 4.75 per cent, the third cut in under two months. The Swedish krona, meanwhile, was trading near an 18 month high against the D-Mark, at SKr4.652, from SKr4.674

Elsewhere in Europe the D-Mark was generally weaker, although it reclaimed some lost ground as the dollar fell during the afternoon.

■ The story of the day was the steady descent of the dollar as it returned the gains made in Asian trading. Analysts said 

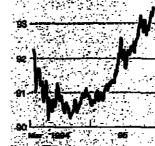
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than a very preliminary deal had been agreed, with "everything still on the table." "We have come a little bit closer to a deal, but not much closer," said a trader at one

European bank in London. Mr Joe Prendergast, currency strategist at Merrill Lynch in London, said: "We certainly don't have a budget deal yet, but we have seen some steps in the right direction." He said the dollar had now returned to the pre-crisis situation where everybody was discounting a budget deal

So long as the budget talks remain unresolved, there is not much likelihood of a sharp move in the dollar. Some of the fundamental trends, however, favour a stronger dollar, especially the recent Japanese trade figures. "It is quite clear that significant important penetration is taking place, and that the number one policy dilemma between the US and

Dec '96 future contract, bid price



Japan is disappearing," said one New York analyst.

Sterling, which hit a record low late on Friday against the D-Mark, was let off the book by the early rally in the dollar. Many analysts, however, expect it to still trade lower in the run-up to the budget. One concern is that there is

a potential overhang of seiling

who have held off from selling sterling in expectation that it would rally.

Mr Prendergast said that as recently as two weeks ago, the options market had not been pricing in any political risk, with sterling/dollar volatilities at a low for the year, and one month risk reversals at par. Both of these have since moved quite sharply, "correcting the somewhat complacent situation of a few weeks ago," said Mr Prendergas

He predicted that a decent recovery was possible for ster-ling if the more drastic market scenarios of a large tax cut in the budget, and a cut in interest rates, did not materialise. There is not much support to

be had for sterling from the charts. Mr Brian Marber, an independent technical analyst in London, said: "\$1.5350 appears to be the next stop. But using British bus terminology, this one is a "request stop", that is, unless someone

puts up a hand, sterling will go right on by. Let's hope it runs over neither the man in the street nor on the Clapham

■ Short sterling contracts all lost ground yesterday as the poor performance of German bunds put the gilt market under pressure, and this seeped over into the short end of the yield curve. The March 1996 contract closed at 93.63. after opening at 93.67. Rates were slightly firmer in

month LIBOR firming to finish at 611 per cent, from 6% per

In its daily operations the Bank of England cleared a £1.2bn money market shortage.

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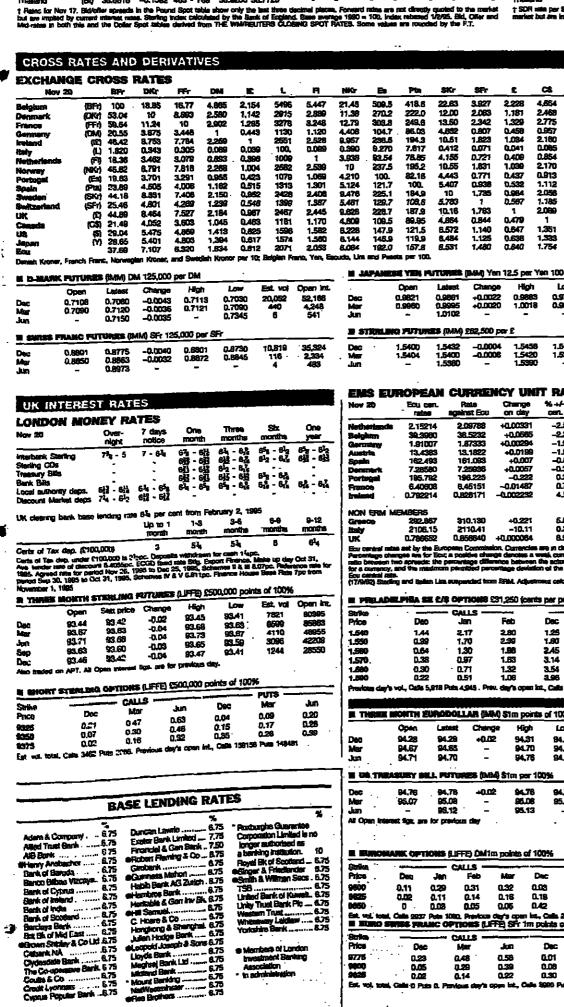
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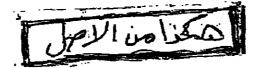
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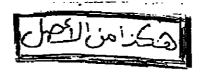
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# FT-SE 100 closes well below new intra-day high

By Steve Thompson **UK Stock Market Editor** 

Share prices in London moved up again to all-time highs yesterday, measured by the stock market's main indices, the FT-SE Actuaries All-Share and the FT-SE 100.

There were, however, signs that the market's move to record levels could be running out of steam. Wall Street, one of the prime motivating forces behind the London market's recent rise, briefly penetrated the 5,000 level on the Dow Jones Industrial Average, shortly after the US market opened for trading. But it quickly dropped back to the mid-4.990s, and around two hours after

London closed for business the Dow was still jousting with the 5,000

The failure of the US index to move decisively through 5,000 was one of a number of worrying signals affecting London. Others included the emergence of yet more profits warnings, notably from Rexam, the paper group, and a decline in international bond markets.

Gilts, up around four ticks early in the session, were never performing in a convincing fashion and fell away as the day wore on, eventually closing around nine ticks down on balance.

Dealers said London had run into some determined selling pressure when it passed 3,630. "Above that level, we ran into some real selling," said one marketmaker.

The FT-SE 100 index finished the day a net 19.6 firmer at an all-time closing high of 3,628.8, after reaching a record intra-day peak of 3,639.5. The FT-SE-A All-Share index ended at a best ever 1,776.97,

The market's early euphoria never really extended beyond the leading issues, with the FT-SE Mid 250 index always underperforming the 100 index and finally closing only 2.3 higher at 3.966.8.

Earlier, the stock market gave an immediate positive response to the rise by Wall Street on Friday night,

when the Dow came within four points of the 5,000 level on the Dow Jones Industrial Average after 'double-witching hour" which saw the expiry of index and stock options in the US.

The FT-SE 100 kicked off some 12 points higher and quickly moved up to show a gain of 20 points as some institutions showed signs of being panicked into the market, after standing back during last week's advance. News of a modest downward revision in third-quarter gross domestic product gave a modest boost to sentiment, increasing the chances of a cut in domestic interest rates, dealers said.

News in the early afternoon of

plus a bout of nerves as Wall Street opened, began to unsettle the market, with the FT-SE 100 eventually closing well below the day's best.

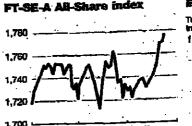
Rexam, the paper group, deliv-

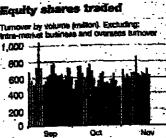
day was valued at £1,62bn.

1,700

ered the latest profits warning to hit the market, warning of destocking and a potential 20 per cent decline in profits. The Rexam move comes less than a week after a similar warning from Arjo Wiggins Appleton. Bunzl and David S. Smith were other paper issues to suffer as the news circulated in the market.

Turnover in equities reached an encouragingly buoyant 657m shares. Customer business on Fri-





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SE 100 SE Mid 250 SE-A 350 SE-A All-Share SE-A All-Share yield	3628.8 3966.8 1801.8 1776.97	+19.6 +2.3 +7.9 +7.47 (3.81)	FT Ordinary Index FT-SE-A Non Fins p/e FT-SE 100 Fut Dec 10 yr Gilt yield Long gilt/equity yld ratio:	2647.5 16.73 3629 7.76 2.12	+8.7 (16.68) +6.0 (7.73) (2.10)

Leisure & Hotels insurance ...

Worst performing sectors
1 Paper, Pckg & Print ......
2 Chemicals ......

#### Rexam hit by warning

Paper shares, battered by a wave of profits warnings in recent weeks, were dealt a furleader Rexam sector announced that 1995 profits were heading for a 20 per cent

Rexam. Arjo Wiggins Appleton, Bunzl and David S. Smith all plunged to the bottom of their respective index performance rankings. Rexam feli more than 10 per cent, and the four stock prices incurred an average decline of more than 6 per cent.

Rexam, which stood at 519p in July, dropped to a new 1995 low, closing 37 off at 335p. At 9.3m shares, turnover was the heaviest since mid-August. Arjo retreated 121/2 to 180p, Bunzl shed 8½ to 171p and Smith lost 101/2 to 255p.

After recent cautious statements from KNP and Arjo Wiggins, Rexam was widely expected to follow suit. But it was the extent rather than the timing of the Rexam statement that set alarm bells ringing across the sector.

The depth of the group's destocking difficulties also rekindled the management succession stories that have dogged Rexam for most of the past year. Chief executive Mr David Lyon is due to retire next June. Most analysts marked down their profits estimates in line

with the Rexam statement, and

the 1995 range looks to be

vague talk of dividend cuts vesterday with cover for a maintained payout shrinking to close to 1.5 times.

£180m to £185m. There was

#### Ladbroke rallies

Shares in hotels and leisure giant Ladbroke gained 51/2 at 1321/sp following weekend press reports that suggested the group may soon be on the receiving end of a bid from Granada Group.

However, analysts quickly dismissed talk of such a merger and instead attributed part of the rise to buying from fans of the stock wishing to see it retain its place in the premier FT-SE 100 listings.

Ladbroke shares had retreated sharply following its recent profits warning, which made it vulnerable to being removed from the listings. Volume at the close was 5.2m. An analyst commenting on the bid talk said: "I cannot see the logic of such a move for Granada. It would be taking on problems it can do without."

Granada was also mentioned as a possible suitor for Pearson, owner of the Financial Times. Shares in Pearson moved ahead 7 to 655p, with turnover said to be dull. There are those in the market who believe such a deal is not so far fetched and one said yesterday: "This argument has an element of logic but I cannot see it being a contested bid: it would have to be an agreed merger

None of the acquisition talk dimmed the attractions of Granada and the stock forged ahead 20 to 700p in trade of 24m shares.

The group reports final fig-

ures tomorrow and traders expect it to produce profits which beat analysts' predictions. The market range is between £340m and £350m.

#### GRE advances

The bid spotlight among composite insurers shifted to Guardian Royal Exchange, sending the shares racing forward late in the session.

The stock surged 131/4 to 247%p, making it the best performer among Footsie constituents. German insurance group Allianz was again mentioned as a possible suitor for the LIK company, although there were those suggesting that an offer may come from a UK commercial bank.

However, some people are cautious about the attractions of GRE, including Mr John Marr at Charterhouse Tilney. He said he would continue to be a seller of the shares because of "the forthcoming deregulation of the German insurance market which will hit GRE's already unprofitable German subsidiary, and the poor quality of the group's life operations". He said he was also concerned about the group's UK direct writing operation "which has yet to attain a decent market share".

Elsewhere in the sector, General Accident bounced from last week's retreat and the shares gained 10 at 669p. A shortage of stock was

reported in Lloyds Abbey Life, which helped the shares firm 12 to 453p. Cable and Wireless and

Vodafone moved ahead among telecoms shares, but BT had another dull day as regulatory doubts continued to undermine sentiment.

Worries that BT's dominant position in the lucrative market for international calls is set to be carved up by competitive

#### FINANCIAL TIMES EQUITY INDICES Nov 20 Nov 17 Nov 16 Nov 15 Nov 14 Yrago

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Ord. div. yield	4.05	4.08	4.06	4.12	4.11	4.33	4,73	4.02
P/E ratio net	15.85	15.89	15.89	15.68	15.69	18.18	21.33	15.35
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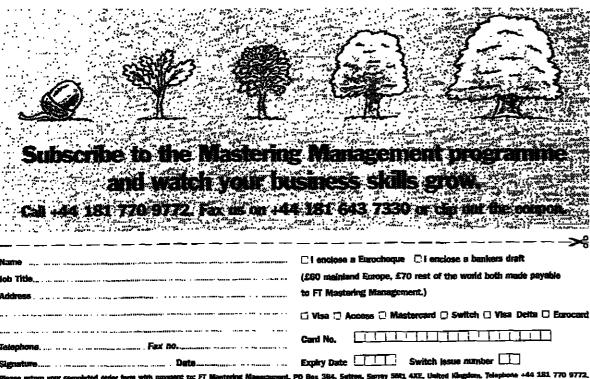
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pressure sent the shares spinning lower in good two-way trading. They closed at a 17month low of 356p, off 5, in

turnover of 26m. Hit at the end of last week by mounting evidence of boardroom rows, C&W rallied shood of a statement from the company scheduled for this morning. The shares put on 6 at 423p. A buy note from ABN-Amro Hoare Govett supplied underpinning.

Vodafone, mobile phones leader in the UK, hardened 31/2 to 254p in 13m shares traded ahead of today's interim results statement.

News that copper cables group BICC had short-listed three potential buyers of its housebuilding division gave the shares a further upward push. They ended 5 ahead at 281p for a two-day improvement of more than 5 per cent. A profits warning sent shares in precision instruments group Graseby plum-

meting by 18 to 125p. Leading conglomerates had a quiet session, although BTR added 5 at 338p following a positive note from NatWest Securities.

The broker has trimmed its profits estimates for this year and next by 1 per cent, as a result of dull trends in Australia but sees the shares as an "add" given a below average rating and the potential greater focus on core divisions. BTR has an opportunity to enhance shareholder value significantly." NatWest said.

Channel tunnel operator Eurotunnel continued to claw back towards the £1 mark. improving 3 to 99p on the back of steady buying by French investors. The shares are now almost a third above their September low P&O which makes a presentation to Edinburgh institutions today, retreated 10

International trader Inch-

**FUTURES AND OPTIONS** that a big broker was about to downgrade dividend estimates. The shares shed 10 to 287p. Leisure group Thorn EMI rose 17 to 1547p ahead of

today's interim figures. Talk in the market suggested that the company would unveil news of the group's demerger.
There are also hopes that the latest release from the Beatles

will boost record sales substantially at RML Mr Andrew Hunter at ABN Amro Hoare Govett believes the stock to be "undervalued" and said: "I think the shares

are reflecting a lot of the excitement in the music bustness, particularly the release schedules at EMI and Virgin." Yield buyers were reported in Associated British Foods, 13

There was nervous trading in Northern Foods ahead of today's interim figures and the shares surrendered 6 to 166p.

higher at 715p.

Joel Kibazo,

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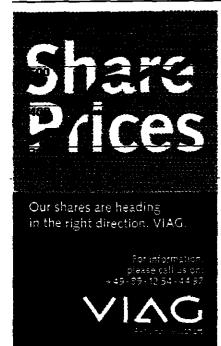
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FINANCIAL TIMES TUESDAY NOVEMBER 21 1995 ★	. 35
	NASDAQ NATIONAL MARKET 4 pm close Hovember 20
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AMEX COMPOSITE PRICES  American and a series of the series	Section 1   1   1   1   2   2   2   2   2   2

# Dow cracks 5,000 barrier at midsession

#### Wall Street

Blue chip shares in the Dow Jones Industrial Average edged through the 5,000 level in early afternoon trading yesterday after spending most of the morning moving in a narrow range on either side of Friday's close, writes Lisa Bransten in

The Dow first climbed through 5,000 just after 10 am but failed to hold on to that high for the rest of the morning. But it moved more decisively through that psychologically important level just before 1pm, when it Dow registered a gain of 12.65, bringing it to 5.002.60.

Still, there was uncertainty on Wall Street about whether the edgy market would retain its early afternoon highs until the close.

Rising issues in the Dow included Disney, up \$1 at \$60%, Eastman Kodak, \$1% stronge at \$70. Texaco, which added \$11/4 at \$721/4 and General Motors, \$% stronger at \$47%. The Standard & Poor's 500

was lower in early trading. having breached its own psychological barrier of 600 on Friday. By 1 pm it was off 0.53 points at 599.54. The American Stock Exchange composite added 0.52 at 532.48. NYSE volume was 182m shares.

Shares roared higher last week as investors bet on a posstalemate and bought shares to cover short positions before Friday's expirations of options on shares and share indices. Therefore analysts did not

#### ment, a stop-gap measure to reopen the government, to

cause shares to rally. Technology shares were mixed yesterday with the Nasdaq composite, weighted toward that sector, slipping 0.18 at 1,044.85. The Pacific Stock Exchange technology index shed 0.7 per cent.

Microsoft, the biggest com-pany on the Nasdaq, added \$% at \$88 and Intel gained \$% at \$63%, while Apple Computer slipped \$% at \$39% and America Online was \$% lower at

Norand shed \$1% or more than 10 per cent to \$14 after announcing that it would postpone the shareholders meeting originally set for next month and restate 1994 and 1995 results because of a problem completing this year's audit.

Toronto overcame early weakness in midday trade, the TSE-300 Composite index rising 2.19 by noon to 4,601.83 in light volume of 23.8m shares.

Analysts noted that the market was unmoved by the resolution of the US budget dispute, while further uncertainty surrounding Quebec's future had tended to keep equities in

Canadian National Railway. the first instalment trading on a when-issued basis, gave up an early rise to C\$20% to trade C\$1/4 lower at C\$20, but still at a substantial premium to the offer price of C\$16%.

CFCF fell C\$1% to C\$14% after it agreed to sell its CF Cable TV unit to Le Groupe

### Brazil gives up 3.1%

midday trade on concerns over the political implications of a possible scandal surrounding a \$1.4bn contract for the Amazonian surveillance Sivan radar

A presidential aide and the air force minister resigned at the weekend after transcripts were published of a telephone conversation that raised questions about the way that the order had been awarded.

Sao Paulo fell 3.1 per cent in 1,242 at 30,934 by 1 pm, but turnover was thin. CARACAS pulled back after eight successive rising sessions, and the 19-share index lost 44.06 or 2.4 per cent to

> **BUENOS AIRES** remained on the upward track after last week's rises, the Merval index adding 3.71 at 425.35 in midday trade in a further positive response to the government's cost-cutting plan.

MARKETS I	N PERSPECT	TVE
% change i	n local currency †	% chen

	) Weak	4 Weeks	1 Year	Start of 1995	Start of 1995	Start of 1985
Austria	-1.47	-0.08	-13.72	-16.13	-8.72	-7.45
Belgrum	+2.02	+3.51	+8.84	+7,88	+19.77	+18.82
Denmark	-0.07	-0.96	+1.12	+0.21	+12.87	+11.97
Finland	-6.44	-10.64	-2.85	+1.23	+15.38	+14.47
France	+2.54	+6.93	-0.90	+1.67	+12.72	+11.83
Germany	+0.95	+0.41	+1.97	+1.83	+13.25	+12.35
kreiand	+3.86	+4.37	+21.37	+20.17	+25.61	+24.62
Italy	+0.67	+1.11	-7.98	-8.23	-5.70	-6.46
Netherlands	+1.41	+1.30	+10.05	+8.71	+20.88	+19.92
Norway	-0.68	-5.14	+4.82	-3.12	+6.67	+5.82
Spain	+1.80	+2.66	+1.24	+6.30	+16.64	+15.72
Sweden	+0.98	-3.84	+15.81	+19.10	+35.94	+34.86
Switzerland	+0.71	+1.04	+20.69	+19.24	+38.30	+37.20
UK	+2.41	+1.52	+14,45	+16.84	+16.84	+15.92
EUROPE	+1.62	+1.54	+8.40	+9.63	+17.38	+18.45
Australia	-0.29	+0.97	+12.12	+11.16	+7.16	+6.32
Hong Kong	-1.82	-7.10	-7 <i>.</i> 70	+8.70	+9.62	+8.75
Japan	+1.08	-0.53	-5.10	-7.04	-8.57	-9.29
Maleysia	-1.58	-9.24	-19.20	-11.65	-10.14	-10.85
New Zealand	-2.77	-3.28	+0.74	+10.08	+12.33	+11.45
Singapore	+0.22	-2.16	-11,59	-5.11	-1.20	-1.98
Canada	+0.32	+3.83	+10.59	+8.28	+13.15	+12.25
USA	+1.42	+2.11	+29.76	+31.00	+32.05	+31.00
Mexico	+1.44	+0.04	-3.13	-3.66	-38.09	-38.58
South Africa	+0.06	+2.96	+15.24	-0.40	+12.17	+11.28
WORLD INDEX	+1.23	+0.90	+10.25	+10.88	+13.19	+12.30

FT/S&P ACTUARIES WORLD INDICES

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NATIONAL AND REGIONAL MARKETS

Hong Kong (55)

# Early dollar drives Zurich to a new 1995 high

Early strength in the dollar took ZURICH to another high for the year. The SMI index moved ahead 29.7 to 3,182.2. edging towards its all-time peak of 3,190.4 set on January 31, 1994. Nestlé rose SFr12 to SFr1,227 on the higher dollar, and renewed interest ahead of 10-month sales figures due later in the week

In the chemical and pharma ceutical sector. Roche certificates rose SFr80 to an all-time high of SF18,575. Ciba was up SFr18 to SFr1,018 and Sandoz gained SFr15 at SFr973. SMH. up SFr14 at SFr663, saw a technical rally after sharp losses last week when UBS downgraded its 1995 profits forecast to SFr272m from SFr320m.

FRANKFURT came off its highs as the dollar and the Dow lost some of their enthusiasm in the European afternoon, the Dax index closing 7.42 ahead at an Ibis-indicated 2,204.01, after 2,224.11.

Turnover was DM1bn lower at DM6.6bn. Cyclicals rose on the dollar but Thyssen had added spice; its telecoms unit raised DM1bn in a share sale, and the group linked with Bell-south of the US to hid for 49.9 per cent of DBKom, the tele-

THE ISUROPEAN SERIES Hourly changes FT-SE Bardinack 100 1448.15 1448.37 1448.27 1447.62 1447.99 1447.00 1447.16 1448.56 FT-SE Bardinack 200 1555.46 1553.53 1554.58 1556.68 1556.68 1556.68 1556.68 1556.68 1556.68 1432.37 1542.81 1412.62 1522.69 1541.25 coms unit of Deutsche Bahn. closed 3.10 higher at 463.51.

the German railway. Thyssen PARIS took another breather, the CAC-40 index easing 9.12 to 1,881.40. Financials lost more than average after last week's rate cut gains, Paribas falling FF19.50 to FF1285.60 and Axa FF15.50 to FF1311.60.

FT-SE Actuaries Share Indices

Accor dropped FFr22 to FFr606 after it said that Europ-car, the joint venture with Volkswagen, was not working out; the hotels and tourism group maintained that it was not worried by the possibility that Suez might sell its 12 per cent Accor stake.
On the plus side, Elf-Aquitaine rose FFr4.80 to FFr352.80

after Bear Stearns tipped it among a number of international oil stocks in New York. AMSTERDAM'S AEX index

with the weighty Royal Dutch, F13 up at FL 204.80, continuing an earlier advance on last week's upbeat analysts' presentation; however, there was a New York influence, the oil giant getting a favourable nod from Salomon Brothers.

MADRID analysed the Catalan election result for favourable market portents but, in the end, individual issues seemed to be more important as the general index moved up 2.53 to 302.65. In line with other oil issues,

Repsol was a big winner, rising Pta80 to Pta3,790, although ABN-Amro Hoare Govett recommended a sell, forecasting reduced profits from its chemicals division. On the downside, Amper the telecoms engineer. fell Pta145 to Pta1,455 for a

to 931.64 in volume of just

14.2m shares, this year's sec-

to Won7,170, Commercial Bank of Korea by Won250 to Won8,200 and Kyungki Bank

KARACHI, virtually

unmoved on Sunday by the

weekend bombing of the Egyp-

tian embassy in Islamabad

by Won210 to Won8,950.

ond-lowest level.

two-day drop of 14.4 per cent, although analysts put it on prospective p/e ratios of only 5.6 for 1996 and 4.9 for 1997.

MILAN saw an early, upbeat mood evaporate on rumours that today's inflation figures would be worse than expected. The Comit index registered a rise of 4.39 to 577.52, while the real-time Mibtel index turned back from a high of 9,266 to close 10 weaker at 9,149. Ferruzzi finished L61 down at L1,132 and Montedison was

shed L26.5 to L638 ahead of the company's news conference on its financial situation. TEL AVIV jumped for the third consecutive day, by 1.9 per cent as the shekel weak-

ter, would cut the budget lower interest rates and devalue after he formed a new government. The Mishtanim index rose 3.56 to 192.74.

substantial gains in Ericsson B, SKr6.50 higher at SKr155 on renewed support from Ameri-

tan Telecommunication Corpo-

funds picked up blue-chip prop-

ket's recent weakness.

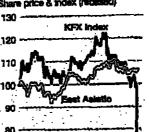
up 9.47 to 2,086.88.

off L9 at L1,009 as a positive early response to Friday's presentation to financial analysts proved shortlived. Gemina

ened against the dollar following rumours that Mr Shimon Peres, the acting prime minis-

STOCKHOLM put together

East Asiatic Share price & index (rebased)



#### Source: FT Date!

can investors; in Volvo B, SKr4 higher at SKr139.50 on the cyclicals' response to the dollar, and in banks, which rose 2.4 per cent as bond yields fell. The Affärsvärlden General index added 25.1 or 1.5 per cent at 1,728.9.

The insurer Trygg-Hansa closed SKr3 higher at SKr98.50 after it received permission from the Swedish financial authorities to trade in Stockholm-listed securities with effect from tomorrow wes HELSINKI saw Nokia A up

FM7 at FM230 on the dollar, a

surprise Bank of Finland tender rate cut, and speculation in forestries where Metsa-Seria announced a news conference after hours. The forestry sector rose 2 per cent, in line with a Hex index advance of 86.94 to 1.858.38.

COPENHAGEN'S KFX Index firmed 0.53 to 101.67, but East Asiatic dropped DKr29 or more than 20 per cent to a new 1995 low of DKr110 after the shipping and wholesale group downgraded its current year forecast to an unspecified fig-ure below 1994's DKr136m net.

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WARSAW tumbled 3.8 per cent as an uneasy calm settled on the country after Mr Alek-sander Kwasneiwski's defeat of the incumbent Mr Lech Walesa in Sunday's presidential elec-tion. The Wig indax lost 309.7 to 7,838 1 as one commentator said that Mr Kwasniewski's victory had transformed the future into "a great unknown". Turnover surged 66 per cent to 69.8m zlotys from recent low levels, prompting some analysts to forecast that the market had further to fall in coming sessions.

Written and edited by William Cochrane and Michael Morgan

#### **ASIA PACIFIC**

# Nikkei at six-week high after bad debt plan reports

Weekend reports that the Japanese Ministry of Finance would draft a plan to clear the bad debts of the country's housing loan companies prompted buying in the banking sector; the Nikkei average rose 1.3 per cent to a six-week high, writes The 225 index closed 232.66

Emiko Terazono in Tokyo. higher at 18,383.82, rising for the third straight session; it moved between 18,189.02 and 18.445.00, with buying centred on banks, large-capital steels and speculative issues. The surge on Wall Street on Friday boosted investor confidence, while the compromise over the US budget between President Bill Clinton and Congress supported the dollar.

Volume jumped from 356m shares to 421m. Activity was supported by heavy cross trading by investors looking to secure profits on their portfolios. The Topix index of all first section stocks climbed 17.12 to 1.458.38 and the Nikkei 300 moved ahead 3.44 to 273.26. ied decimes by 760 to 295, with 159 issues unchanged. In London the ISE/Nikkei 50

index gained 3.36 at 1,243.82. Overseas investors, underweight in the banking sector, placed heavy buying orders following a report about the government's draft solution for the jusen, or housing loan companies. A leading business paper reported on Sunday that the founder banks of the hous-ing loan companies would put up a total of Y1,000bn to set up a body to purchase the bad

Mr Paul Heaton, banking analyst at Deutsche Morgan Grenfell, commented: "The plan to clear up the housing loan bad debts is a very positive development for the econ-

nearly 26 per cent from its July peak, continued to be depressed by inflation and higher interest rates. SEOUL fell 16 per cent as F17/8&P-A Pacific Basis investors went on a selling spree on worries that the market's weakness might deepen. The composite index lost 14.71

Declines overwhelmed rises by 775 to 85. Banks and securities firms were the biggest losers as individual investors sold. Seoulbank dipped Won140

further debate as to the size of respective contributions from the banks and agricultural cooperatives, but the ground rules are now set."

omy. There may still be some

Among banking shares, Fuji Bank rose Y50 to Y2,070 and Dai-Ichi Kangyo Bank Y50 to Y1,870. Brokerage stocks also gained, Nomura Securities adding Y60 at Y1,930. Foreign investors bought low

priced large-capital issues. Nippon Steel, the day's active stock, hardened Y3 to Y353 and NKK Y12 to Y275. Speculative favourites were

stronger, with Takaoka Electric surging Y100 to Y718 and Nihon Nohyaku Y100 to Y889. In Osaka, the OSE average put on 147.76 at 19,625.41 in volume of 41.1m shares.

A 3 per cent drop took MANILA through two key support levels, 2,250 and 2,200. as the composite index shed 67.60 to a new 1995 low of 2,196.48. Volume expanded from 2.18bn shares to 2.81bn, but turnover eased from 1.26bn pesos to

The market, now down

#### S African industrials at peak

Johannesburg's overall and industrial indices hit record highs, propelled by Wall Street's early performance, while golds held their own on a steady but dull bullion price. The overall index ended 31.7 ahead at 6,052.8, industrials

Pound Sterling Index

surged 40.5 to 7,715.9 and golds put on 4.8 at 1,858.0. Rembrandt finished 25 cents firmer at R32.75. SAB advanced R1.75 to R121 and Anglos moved forward 50 cents to R217.50. De Beers closed unchanged at R108.75.

saw selected blue chips sold tha actives list with 14.3m yesterday after global deposi-tary receipts (GDRs) in Pakisshares traded and rose 38 cents to a year's high of \$\$2.70.

ration slipped abroad. The KSE 100 index fell 17.39 higher after two days of falls, the composite index improving or 1.2 per cent to 1,455.41, with 4.89 to 893.80. PTC off Rs1.25 at Rs27.30.

MAS, the national carrier, firmed 25 cents to M\$7.65 due HONG KONG was sharply higher on a round of late buyto robust interim results. ing but trading remained thin United Engineers stayed at in the absence of foreign par-M\$14.20 in spite of reports that ticipation. The Hang Seng its highway subsidiary would win approval for higher tolls. Maybank, which gained from light local fund buying, was 40 index rose 86.01 to 9,373.91 in turnover that fell to HK\$2.8bn. New World Development advanced HK\$1.10 or 3.8 per cents up at M\$18.60.

TAIPEI was led down by cent to HK\$30.20 as investment cements ahead of the Decemerty counters after the marber 2 legislative elections. The weighted index fell 17.77 to SINGAPORE's attention was 4,565.72 in turnover of T\$12.8bn, the lowest since the

on speculative issues and second liners and the Straits T\$10.4bn of October 9, 1993. Times Industrial index picked SYDNEY did not trust the Wall Street rally and the All The recent takeover target Ordinaries index put on just 6.7 at 2,126.40. News Corp, how-United Pulp and Paper topped ever, was helped by Wall

Street, as well as the closure of

Today, the UK tabloid, and the

cover price of The Times; the shares rose 13 cents to A\$6.64. WELLINGTON demonstrated the potential weight of diviincluding Telecom, went exdividend. The NZSE-40 gross index, which adjusts for dividends, ended 19.73 higher at 2,829.15, while the NZSE-40

decision to raise the week-day

slipped 7.67 to 2,147.90. Telecom, having gone ex a 17-cent dividend, ended down 17 cents at NZ\$6.26 but steady on an adjusted basis.

Capital index, which does not,

SHANGHAI's hard currency B share index finished higher on a technical rebound supported by rises in Pudong stocks, but trading was thin with the market pondering the possible negative impact of China's imminent import tariff cuts. The index rose 0.238 to 50.708 but SHENZHEN'S B index eased 0.49 to 64.48.

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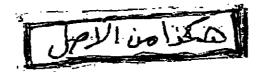
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# FINANCIAL TIMES SURVEY HUNGARY

# Chill wind on the River Danube

Anthony Robinson 21 per cent devaluation over and Virginia Marsh the first half of the year. say Hungarians are facing the harsh truth that they must stop living beyond their economic means

t has been a year for shedding illusions and slaughtering sacred cows. The "goulash communism" which made Hungary a byword for relative prosperity under the old regime was financed by foreign debt. The first democratically-elected government inherited a bloated social security system but lacked the strength to cut it. But earlier this year a socialist-led government introduced a tough austerity package which obliged Hungarians to face the harsh truth; for decades they lived beyond Hungary's means.

This is a bitter pill for millions of Hungarians who live on or around an average national income of \$300 a month and for whom the last five years brought unprecedented economic change and social insecurity.

Yet they have been obliged to accept an 11 per cent cut in real wages this year, and another 3 to 4 per cent decline is planned for 1996. This follows an emergency economic, financial and exchange rate package introduced in March.

Its aim was to neutralise a substantial rise in real incomes prior to the 1994 elections, reverse a dangerous widening of the trade and current account deficits and head off the risk of a potential domestic and foreign debt trap arising from inflationary pressures and rising interest rates.

By autumn the statistics were beginning to show that the politically fraught package was having the desired effect. Exports in particular responded well to an effective and badly drafted.

Higher investment has also helped to compensate for lower consumer demand, which in turn has led to a slackening in the increase in imports and and an easing in pressures on the domestic economy. Inflation and interest rates have Started to decline

But the longer term success or failure of the austerity package is still in question. The outcome depends on the willingness of labour and the trade unions to accept the one-off cut in living standards imposed by the March package, and on the ability of a Socialist-Free Democratic coalition government, led by Mr Gyula Horn, the Socialist Party prime minister, to follow up with a radical reform of the entire social security and health system. These promised reforms are the key element in a strategy to cut government spending, lower interest rates, and hence reduce the cost of financing a near-crippling level of domestic

A recent OECD report on social and labour market policles in Hungary highlighted the need to reform an old age and disability pension system which accounted for 11 per cent of GDP in 1993, and to revise a family allowance system which accounted for

and foreign debt.

another 5 per cent. in the March package the government cut some social payments, introduced incomerelated fees for some previously free educational and health services and underlined its commitment to broader structural reforms which will target payments and services on the most needy elements of the population.

Some measures were subsequently struck out by the coustitutional court, which argued that cuts in benefits announced with so much speed and such little warning in March were unconstitutional

The 1996 budget, which is being drawn up to conform with targets agreed with the International Monetary Fund, including a budget deficit set to fall below 4 per cent of GDP, compared with 9.5 per cent in 1994, will restore the income lost by the constitutional court roling. But it will not soothe the ruffled feathers of a trade union movement which is at its strongest in the still state-controlled areas of the econ-

Civil servants, teachers, health-workers and other public sector workers have seen their incomes and social prestige fall since the collapse of socialism. But their numbers have continued to increase. Crucially, it was their votes which brought the socialists back to power in 1994.

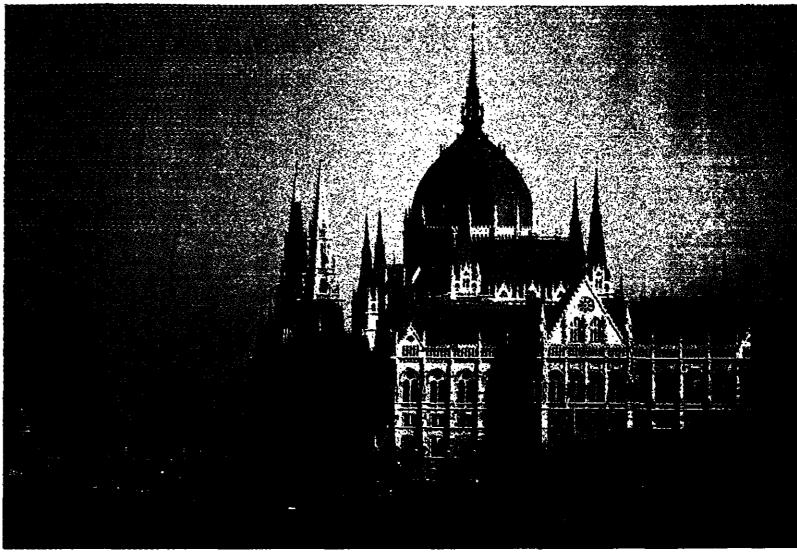
Mr Sandor Nagy, Hungary's main trade union leader, helped to marshal votes for the

Now, after retiring from the union movement, he stands as a somewhat ambleuous figure. uncertain whether to accept a senior government post, if one were offered, or to stake out his position as a future alternative leader of the left.

r Horn, meanwhile. appears to be willing to face up to his internal party critics and persevere with structural reforms and privatisation in the hope that these measures will transform the economy and start to pay political dividends before the next elections in 1998.

"To appreciate what we have done you must realise that we have abolished what Hungarians grew up to accept as sacred rights," says Mr Horn, a veteran reform communist who led his revamped Socialist party to victory in the 1994 elections but is now widely accused of adopting "Thatcherite" anti-welfare policies and rapid privatisation.

Mr Lajos Bokros, the former banker who became finance



The parliament building on the bank of the River Denube, where the Hapsburg splendour of old Budapest still shines

minister in March when Mr Gyorgy Suranyi was also appointed to a key financial role as governor of the central bank, is even more blunt. "The historic task of the Socialist government is to roll back the frontiers of the welfare state," he says.

A reduction of the state's role in the economy and society is not what many voters thought they were voting for in last year's elections. But Mr Horn points out that economic and social reform was put on the agenda by Hungary's reform communists before the collapse of Soviet hegemony over central Europe.
"We realised that the stan-

dard of living was being artificially supported by foreign loans and initiated the economic reforms which would have allowed Hungary to pay

its way," he said in an inter-

After the collapse of communism, power passed into the hands of the conservative Hungarian Democratic Forum government in 1990. But a government attacked by the left for being hard hearted and uncaring was actually too inhibited by such criticism to make the cuts in social welfare, or proceed sufficiently quickly with privatisation to cut the size and cost of the Hungarian public sector.

A difficult year lies ahead, but there is light at the end of the tunnel. Two decades of foreign borrowing have saddled Hungary with the highest per capita debt in the former communist world. At the same time it acquired a formidable reputation for sophisticated debt management and excellent contacts in financial mar- electric light manufacturing revamping of former state-

Familiarity with western financial markets, and nearly two decades of cautious market-oriented reforms, gave Hungary a significant advantage over other former communist countries in the search for foreign equity capital to modernise the economy and re-integrate Hungary into world markets. As a result over \$10bn in private equity investment has flowed into Hungary over the last five years, nearly half the estimated \$22bn which has come into the region since

More than 30 of the top 50 multinational companies have made investments here. Some, such as the US General Electric corporation, which took over Tungsram and chose Hungary as a base for its global years through the closure or growth before next year is out.

opportunity to make the country a base for research and development work. German companies, such as Audi, assemble high tech components in state-of-the-art factories in western Hungary, able to run 24 hours a day seven days a week, and staffed by

highly trained engineers and

technicians.

activity, have also spotted the

Thanks to such investment, much of it on greenfield sites, and to big structural changes in former state-owned companies privatised by direct sale to strategic investors, Hungary's industry has undergone significant change at the micro-eco-

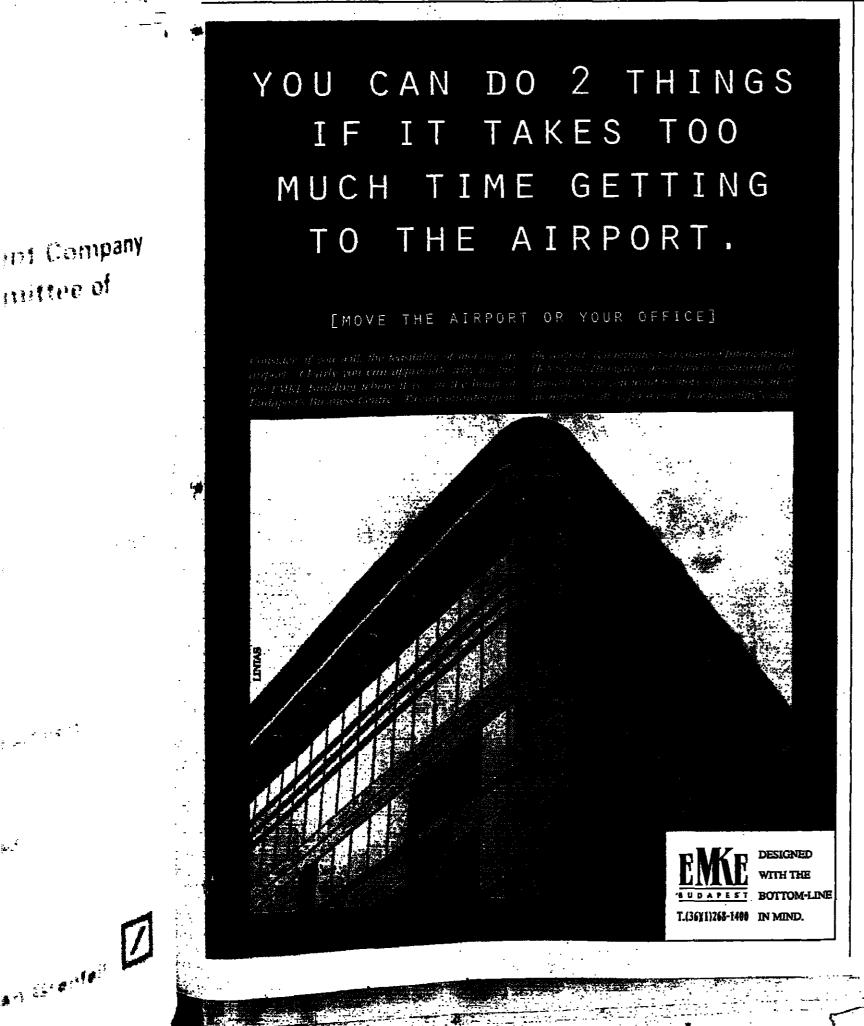
Productivity in industry is estimated to have risen around 50 per cent over the last three

owned lossmakers and the efficiency gains from new technology and managerial methods. The partially privatised telephone system is improving by the month and new motorways ring the capital Budapest and connect it with the Austrian capital, Vienna, 300km to the

This year's painful shift in resources from personal disposable incomes to the state treasury and from domestic consumption to exports is already showing through in higher exports and lower inflation. Investment is rising and economic growth is continuing. If the government keeps its nerve, and the unions keep their cool, Hungary could be well on the way to sustainable

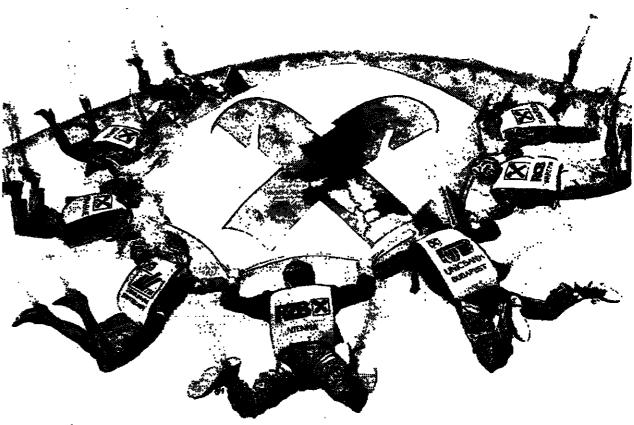
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Two like-minded men, who have

known each other since school

days, put together the March

economic package and agreed

to accept responsibility for its

Working closely together,

ministry and Gyorgy Suranyi as

master-minded an economic and

even themselves by its speed

While Mr Suranyl enjoys

Mr Bokros has become the

political central banker's job,

lightning rod for Socialist Party

Lajos Bokros at the finance

president of the Hungarian

National Bank have

and scope.



The reforming troika

power by a landslide in 1994.

he used to write learned

is a fulfilling but stressful

critiques of economic policy under the pen name "David

Ricardo", borrowed from the

19th century liberal economist

Putting his theories into practice

"I'm the most hated man in

deprecating shrug. But he has

confrontational after the storm

caused by his candid expresse

declaration that "the historic task

of the socialist government is to

Hungary," he admits with a

learned to be slightly less

roll back the frontiers of the

Before taking on his new job



to become the chairman of one of Hungary's most profitable commercial banks, the Central European International Bank Widely recognised as a perceptive macro-economic and financial analyst he now also has the commercial banking

experience to back his international standing as a first class central banker. Ultimetely, however, the ability

of both men to push through the

painful re-adjustment now under

way relies on continuing backing from the prime minister. Gyula Horn has already emonstrated his willingness to defend their actions against left wing traditionalist critics in his party at the risk of provoking a split. But with a wave of public sector strikes in the offing. supporters and critics alike are still waiting to see whether he is prepared to take the political Initiative and actively sell to Hungarians at large the need for

■ Economy overviews by Anthony Robinson

# ice wins global respect

Hungary's overseas standing has been enhanced by this year's robust austerity package

The good news about the Hungarian economy is that five years of largescale foreign investment, privatisation and the painful run-down of inacpropriate heavy industry have led to a big rise in micro-economic efficiency.

Until the introduction of an austerity package in March, however, the international financial institutions were looking at other indices showing the economy as a whole in cro-economic imbalance.

Mr Gyorgy Suranyi, president of the National Bank of Hungary, recalls that the budget deficit was running at nearly 10 per cent of GDP on an annualised basis over the first quarter of this year while the forint was clearly over-valued and interest rates and inflation were rising strongly. Importers were building up

■ Banking: by Virginia Marsh

stockpiles in anticipation of net debt of \$22bn for a popula-devaluation while exporters tion of only 10m, was close to were unable to take full advantage of buoyant world trade and the recovery in EU markets. As a consequence the current account deficit of the balance of payments rose to \$1.4bn in the first quarter of 1995 following an already ainable \$3.9bn in 1994. With the Mexican financial melt-down making global markets nervous, Hungary, with a

gross foreign debt of \$32bn and

Current account balance

an economic and financial crisis. The sense of impending disaster was compounded by mishandling of the planned privatisation of the HungarHotel state hotel chain at the end of last year and intra-governmental feuding. This culminated in the resignation of the monetarist finance minister. Mr Laszin Bekesi, and the government's inability to fill the chairmanship of the central

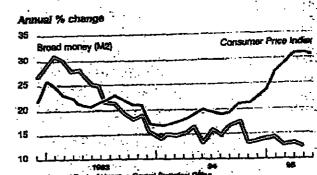
What happened next was a textbook example of how to turn around a small, compact economy and liberate it from the shackles imposed by a bloated public sector, an overvalued exchange rate and punitive interest rates caused by

beavy government borrowing. On March 20, Mr Lajos Bok-ros, the new finance minister, came out with an austerity package closely co-ordinated with the central bank and simed at tackling the domestic

and foreign payments deficits.

Domestically, the "Bokros package" aimed to reduce the budget deficit from 9.5 per cent of GDP in 1994 to under 4 per cent in 1996 by slashing Ft150bn from government spending in 1995 and raising revenue from new social security charges and speeding up privatisation. Internationally, the package aimed to raise competitiveness and redress the payments deficit through a nine per cent devaluation of the forint, followed by monthly "crawling peg" adjustments to the exchange rate, and an 8 per cent import surcharge.

Money growth and inflation



The package demanded an 11 per cent cut in real incomes in 1995, and a smaller 3 per cent drop in 1996. The cut in real incomes has been achieved through higher prices and wage restraint. The effect can he seen most clearly in a seven per cent drop in the volume of retail sales over the first half of this year. Nominal wages rose around 18 per cent over the first eight months while inflation, measured by the consumer price index, peaked at over 31 per cent in June before starting what is expected to be an accelerating and sustained decline over the next two

The surge in inflation eliminated the wage gains accumulated in the run-up to the 1994 elections. The jump in prices was fuelled partly by sharply higher energy prices imposed at the start of the year as an essential prerequisite for the planned privatisation of the energy utilities. A further

increase is due in early 1996. The longer term benefits of the austerity package will only become clear when lower inflation cuts the cost of servicing a national debt which threatened to push the country into a debt trep. Mr Suranyi expects infla-tion on an annualised basis to drop to 16 per cent in 1996 from 29 per cent in 1995. Prime minister Horn, looking to the election year of 1998, hopes that by then inflation will be down to single digits, the budget deficit will be under 3 per cent of GDP and unemployment, currently over 10 per cent, will also be in single figures. If all goes to

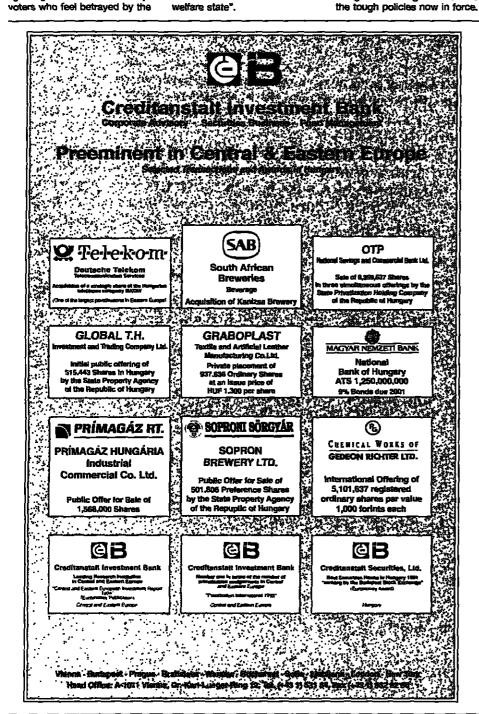
plan the economy should then

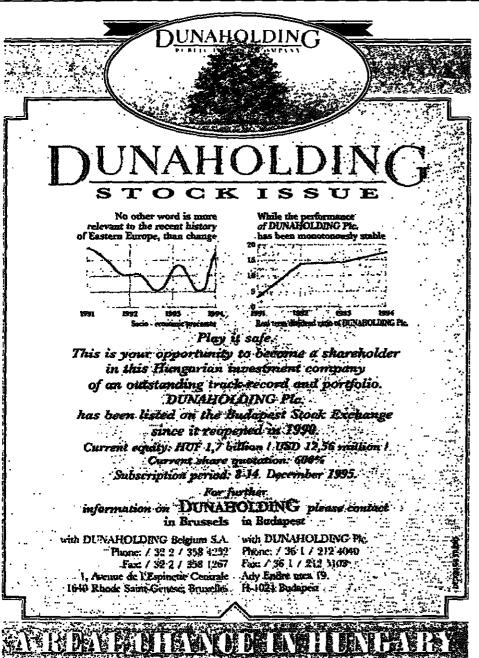
be 85 per cent privatised, compared with current 55 per cent. Already, however, despite much grumbling within the Socialist Party and the trade union movement, the March. package is working even faster than had been hoped, Resources have been shifted from consumption to investment and exports without causing a recession. The econ-omy should show 25 per cent GDP growth this year and "at least 2 per cent in 1996" according to Mr Horn.

Inflation, which peaked at 31.2 per cent in July, fell to 28.8. per cent year on year in September which also saw the best foreign trade performance forthree years. Exports rose to \$1.08bn in September from \$1.02bn in August while imports fell to \$1.12bn from \$1.16bn to give a monthly trade deficit of \$39m compared with \$140m in August. Over the first three quarters of this year exports rose by \$1.37bn, or 19 per cent, to \$8.8bn while while imports increased by just over

10 per cent to \$11.2bn. The EU, which takes 64 per cent of Hungary's exports, remains by far the largest trading partner with foreign owned plants, such as the Dm300m Audi engine assembly plant at Gyor in western Hungary, functioning as low cost production sites within a few hundred kilometres of main plants in Germany and frequently within 100km of parent plants in neighbouring Austria.

Recent months, however, have seen more trade with former Comecon markets, partly reflecting grain sales to Russia.





### Old monoliths are shaken to the foundations

The banks are feeling the full force of the government's tough policies

Hungary's largest state banks were technically insolvent three years ago and only government bailouis worth \$3bn equivalent to around seven per cent of last year's gross domes tic product - saved them.

However, it was not until this year, under the new gov-ernment, that many of the so-called "consolidated" banks started to restructure their operations in earnest. The state also began to pursue bank privatisation with more determination.

"The [former] government threw a lot of money at the banks without having a clear strategy for the sector or for says a western banker. "It

There are calls for temporary bans on licences for foreign banks

agement and several banks continued to be badly run and to repeat the same mistakes." Mr Andras Simor, managing director of Creditanstalt Securities Budapest, adds that the cost of bank consolidation, together with interest pay-ments on government debt, had been the main causes behind Hungary's large budget deficits in recent years. "I sin-cerely hope bank consolidation will never happen again," he

Now, however, Budapest Bank, one of the big four state commercial banks, is close to privatisation while another, Magyar Hitel Bank (MHB), the credit bank, is undergoing radical restructuring under a new management installed on March 1.

General Electric Capital Services, a wholly owned subsidiary of General Electric of the US, one of the largest foreign investors in Hungary, last month signed a memorandum of understanding to buy a majority stake in Budapest Bank. GE Capital, a rapidly expanding financial services company specialising in retail, leasing and credit and debit card businesses, is conducting due diligence at present with a view to closing a deal before the end of the year.

In spite of efforts to sell off several banks, the only other large banks to undergo partial privatisation in the past 18 months were Orszagos Takarekpenztar es Kereskedelmi Bank (OTP), the national savings bank, and Magyar Kulkereskedelmi Bank, the foreign trade bank.

In July, the state raised nearly 290m from the sale to institutional and local investors of a 33.4 per cent stake in OTP, by far Hungary's largest bank, through an international private placement and a domestic offering. The bank, whose assets make up around 31 per cent of the total assets of the domestic banking system, has a near monopoly in some areas of retail banking and a branch network larger than its five nearest competi-

was sold to strategic partners. Last year, the privatisation authorities sold a 25 per cent stake and management control of MKB to Bayerische Landesbank. The bank is now a little over 50 per cent privatelyowned with the European Bank for Reconstruction and Development, which holds a 17 per cent stake, the other major

Other banks, however, are proving difficult to sell and this has renewed calls for the state to declare a temporary moratorium on the granting of new licenses to foreign banks. Many officials at the state banks argue that this would encourage foreign banks to purchase local banks in order to enter the Hungarian mar-Leading international banks,

however, already have a strong presence on the local market and are behind muc of the financial sector's rapid growth of recent years. Around half of the 40 or so ercial banks operating in Hungary, a country of 10.5m, are foreign or foreign-owned the financial sector has risen tenfold to around 200,000 since the late 1980s. A further 20 foreign banks and financial institutions have representa-

Creditanstalt. Austria's sec ond largest bank, already one of the biggest foreign participants on the local market, has recently announced ambitious expansion plans. The bank. which has expanded rapidly into eastern Europe, plans to invest a further ASch350m to add another 15 branches to the five it already operates and to increase staff by 200 to 550.

"The share of the joint venture or foreign banks is growing fast and a large part of assets in the banking sector are now controlled by solid, well-managed majority foreign-owned banks," says Mr Gyorgy Suranyi, who left the commercial banking sector to become central bank president

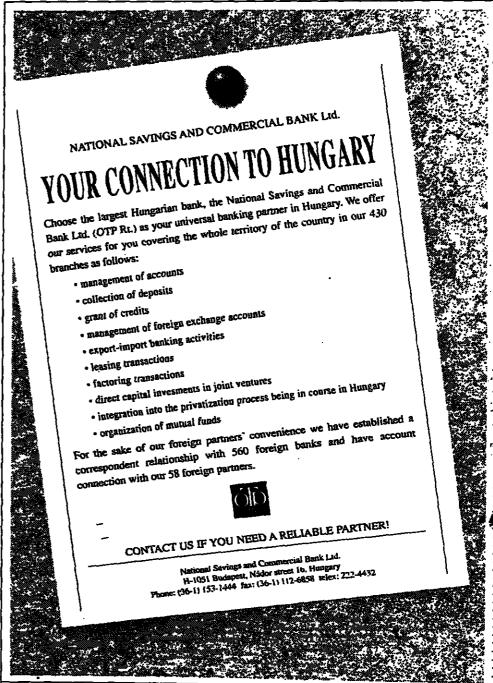
He says the growth of such banks has underpinned the stability of the financial sector and reduced the importance of the large state banks. "The market share of the solidated banks was 40 pe

Stability has been helped by the success of foreign or joint venture banks

less than 20 per cent. Even if some of these banks are still not in good shape their importance is clearly no longer so great," he says. The performance and quality of Budapest Bank has improved tremendously, he adds, while MHB can hopefully be privatised once restructured. Mr Zsigmond Jarai, who

became chief executive of MHB in March after spending six years with the HongKong Shanghai Bank group, hopes to turn around the loss-making bank and create a modern electronic retail bank. He has separated the bad part of the bank, which lost MHB around Ft7.5bn last year, and begun to liquidate its assets. He has

Continued on facing page



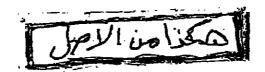


Hungary as a base in Central Europe?

Do you want to meet local partners?

The Investment and Trade Development Agency - ITDH - of the Hungarian Ministry of Industry and Trade is organising a seminar on 13 February, 1996 in the Midlands for companies interested in Hungary as a gateway to Central and Eastern Europe, and to meet Hungarian manufacturing companies. Please contact Tim Wood at Corporate Development Partners in London: Fax: 0171-835 2081, Tel: 0171-370 6939 for information.

Supported by Barclays Bank



Privatisation: by Virginia Marsh

#### **HUNGARY 3**

# timetable worthy of Lady Thatcher

Privatisation is being pushed ahead with a Thatcherite sense of urgency

Hungary's Socialist-led government has Thatcherite ambitions when it comes to privatisation. It has given itself the historic task of selling off most of the country's utilities and completing privatisation over the next two years - a timetable that would be considered highly ambitious by any alone are: oil and gas company

western government "We want to finish privatisation by the end of 1997. The dominance of private property in the economy should reach 80-85 per cent by then. Today it is 55 per cent," says Mr Gyula Horn, the prime minister. This is privatisation of a magnitude and speed unprecedented in the west. It took the UK years to plan privatisation of water companies. We don't have that much time. Our economy can't wait that long." On the slate this autumn

Mol, the country's largest company; MVM, the electricity utilwhich is being broken up and privatised as 14 units; and six gas distribution companies. The deadline for offers for 50 per cent stakes in the five regional GDCs was November 20 while offers for MVM companies are due by November

An international private placement for 25 per cent of Mol, expected to fetch from \$210m to \$270m, is in the market at present and will be followed by a domestic offering.

Global co-ordinators Merrill Lynch, Lazard and Kleinwort Benson are due to announce the price for the international offering on November 21. The sale, which follows the

recent flotation of two other large companies, OTP, the national savings bank, and Richter Gedeon, the pharmacentical company, will be a welcome boost for the Budapest stock exchange. Although the oldest exchange in the region, it remains small and relatively illiquid with just 42 traded companies and total market capitalisation of around \$1.6m, about four per cent of GDP. This compares with more than 1,700 companies and a market capitalisation of around \$15bn, about one third of GDP, on the

Prague bourse. If successful, the energy sec-tor sales will brighten up an otherwise disappointing year for privatisation which had been expected to provide the state with Ft150bn (\$1.13bn) in extra revenues.

By the end of September shares in just 143 mainly small companies had been sold for a total of Ft40.45hn (\$304m), not enough to cover Ft54.7bn in costs incurred by APV Rt, the new privatisation body.

The pace of privatisation which slowed considerably last year due to two rounds of elections and a change of govern-ment – ground to a virtual halt in the first months of this year. A new privatisation bill due to be passed last autumn got bogged down in parliament and did not become law until May, holding up the merger of the two privatisation bodies into a new body, the APV Rt.

Foreign investor confidence plummeted after the cancellation of the sale of the HungarHotel chain, which apart from an offering for 33 per cent of Richter Gedeon was the only large privatisation attempted in the government's first six months in office.

The government had agreed a strategy for utility privatisation last November and the first sales were due in the first half of this year but tenders were delayed by disputes over whether majority stakes should be sold in the first phase. Utility privatisation got back on track in June with the dismissal of Mr Laszlo Pal,

One opinion poll found that more than 80% of Hungarians opposed the sale of energy companies to foreigners

trade and industry minister. who opposed it in the cabinet. Mr Pal, a Socialist MP on the left of the party, was subsequently appointed chairman of

Opposition to the privatisa tion of utilities, however, remains strong. One opinion poll found that more than 80 per cent of Hungarians were opposed to the sale of energy companies to foreigners. There is also resistance from high level government officials, trade unions and local authorities, some of whom have claims on companies' assets, says Mr Peter Mihalyi, chief economist at APV Rt.

attempt to privatise the energy sector is "courageous" and reflects a fundamentally different concept to privatisation than the approach taken by the ment which intended to keep many strategic companies in long-term majority state own-

He adds, however, that contrary to popular belief privatisation in Hungary has, in many senses, become harder rather than easier.

"Most of what we now have left to sell is the hard core of the old socialist system - the utilities, banks and some large industrial companies in, for example, chemicals or aluminium. This hard core is damned

difficult to privatise," he says. Where Hungary has an advantage over most other countries in the former East bloc is that privatisation started early and its benefits are now very clear. Rather than opting for voucher privatisation and the free transfer of companies to the population. Hungary, like the Treuhand in former east Germany, opted for case by case privatisation with the emphasis on sales to strategic partners.

The sale of former state companies to private investors such as the purchase of light. bulb manufacturer Tungsram by General Electric of the US has resulted in large scale foreign investment on top of initial privatisation revenues. Private management has led to painful restructuring. But the surges in exports and productivity of the past two years. generated mainly by the private sector, have underlined to many in the Socialist party the importance of selling off remaining state companies as He says the government's soon as possible.

INTERVIEW

**Tamas Suchman** 

### Supremo of the state sell-off

"Privatisation serves a long-term economic strategy," says Mr Tamas Suchman, the Socialist MP and former regional bank manager appointed privatisation minister earlier this year. He says one third of the workforce is employed by foreign-owned companies or joint ventures and that such companies generate more than 50 per cent of exports and 60-70 per cent of new employment

"A great deal of capital is needed to modernise the energy sector to ensure the future. There is no alternative but to privatise. We have no other source of capital," he adds. He expects an average of

four to eight bids for each of the energy companies currently out to tender around 80 bids from the 14 electricity companies and 50 to 60 for the gas distributors.

Prospective Western bidders say they have been given insufficient time to conduct due diligence and prepare offers as it is only six weeks since the tender documents were published. They also complain about the number of regulatory uncertainties including an onclear long-term price formula, hinting this could depress bids. Mr Suchman counters that most energy sector bidders have been coming to Hungary for years and that many have offices

in the run-up to privatisation

One of his main concerns

is settling pay demands and ending a spate of industrial unrest especially in the electricity sector. "It is very important we have peace with the companies and the trade unions before privatisation. The foreign companies expect this." He says APV Rt has worked out a system for evaluating offers and will be

Given the uncertainties, many expect the process to drag on well

into next year able to process bids and determine the winners in December. Given the regulatory uncertainties and the numerous companies involved, however, many expect the process to drag on

well into next year. Mr Lajos Bokros, finance minister, says he is not expecting revenues from the sales until the second or third quarter of next year due to the "many problems which first need to be solved". Among these he lists further adjustments to price and regulations, definition of the state's golden share and the holding structures, and settlement of local

Virginia Marsh

# **E CASE STUDY: Graboplast** by Virginia Marsh

This successfully privatised company is looking for others to buy and manage

Graboplast, Hungary's leading artificial leather, floor covering and wallpaper manufacturer, is one of a growing band of acquisitive, profitable former state-owned companies whose entrepreneurial managers are looking for ailing enterprises to turn around. Having successfully revived their own former loss-making companies they have gained experience and confidence to apply their new skills to turning around

"Hungarian managers at companies like Graboplast are looking around and saying: 'What can we buy? We've restructured our company, let's do the same thing somewhere else" says Mr Andras Simor, managing director of Creditanstalt Securities Buda-

This year, Graboplast, one of the star performers on the Budapest Stock Exchange, has bought two other enterprises to add to its two existing production units. It main activity is producing artificial leather and internal decorations; its second unit makes non woven

material. The company celebrated its 90th anniversary this month. It was founded in 1905 by the Grab brothers who developed an artificial leather and texiles business in the then Aus-tro-Hungarian empire from their headquarters near

They based their Hungarian manufacturing operations in Gyor, a city in the Kisalfold. the small plain, on the main western transit route out of Hungary, halfway between Vienna and Budapest.

Today's company, which occupies the same sprawling site near the city centre, was formed as a joint venture with Creditanstalt in 1990. After being restructured in 1992 and 1993 it was floated on the Budapest Stock Exchange, It is

now 19.8 per cent owned by management with a further 30-40 per cent held by foreign institutional investors including the European Bank for Reconstruction and Development which recently acquired a 9.2 per cent stake. The balance is held by local investors. From January Graboplast will function as a holding company

with four subsidiarles. The company, together with its two new acquisitions, a carpet factory and a textiles manufacturer, expects total sales of around Ft12.6bn (\$95m) this year and pre-tax profit of over Ft500m. Of this, Graboplast's two production units expect to provide Ft9.0bn in sales and pre-tax profits of Ft485m, up

The company is reaping the benefits of reorganisation

from Ft5.4bn and Ft399m respectively last year. Just Aover half of the units' sales came from exports, mainly to estern European markets.

The company is reaping the benefits of reorganisation three years ago when it took the strategic decision to concentrate more on internal decorations than on artificial leather which had been its core business, says Mr Tibor Bori, finance director. Mr Bori joined the company in 1988 as part of a new management team, then with an average age of 33-35, most of whom are still

Artificial leather, much of it exported to Germany in the form of belts and trimmings for clothes, now accounts for around 30 per cent of the core company's production, down from 60 per cent three years ago. Wallpaper and floor coverings now account for 65 per cent of output and much of the new demand comes from eastern Europe and Russia where Graboplast was strong

under communism. The company's strategic aim is to be "Number One in eastern Europe", Mr Bori says. It is

stepping up its sales drive in a region which will account for around 40 per cent of sales from the core company this year. Graboplast already has representatives in the Czech Republic, Slovakia, Poland and Russia and next year plans to add Romania and reopen its Moscow office.

It also intends to purchase a wallpaper factory next year, possibly in Poland, and is considering investment in a parquet factory in 1997, according to Mr Peter Jancso, chief exec-

In the meantime, the company is working on restructuring plans for Uniontext which it bought last month from Magyar Hitel Bank which is selling off many of its assets. The company which produces bed covers, table clothes and other fine textiles, represents a "real opportunity for us", says Mr Bori, pointing out of the window to the newly acquired factory next door.

With the help of manage ment consultants, Graboplast this year restructured Sotex, a carpet factory, which had been close to bankruptcy. It reduced the labour force by 40 per cent to 330, rescheduled the company's debts and appointed new management. Mr Bori savs Sotex, which produces both carpets and floor tiles, will benefit from a "marketing synergy" with Graboplast's internal decorations division and also exports into eastern Europe. He hopes the company will produce a Pt50m pre-tax profit next year after expected ses of Ft18m this year. For Mr Bori, Graboplast is a

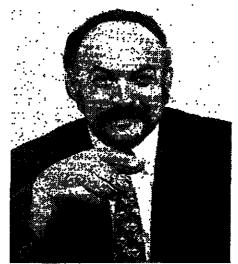
"perfect example" of the posi-tive effect of the Bokros package on business and says that the March measures, including a hefty devaluation and import surcharges, have encouraged the company to shift resources to exports. "The package is for cing us to restructure sales," he says. "Our domestic sales are in trouble. With the cuts in real wages, people can't afford to buy as much at the moment What we like about the package is that it supports exports. In this sense it has definitely

#### **ADVERTISEMENT**

Hungarian journalists have recently attended an informal briefing by minister of privatisation Tamás Suchman.

Recent months - following previous uncertainties - have seen the Hungarian privatisation gaining momentum. Privatisation tenders for assets unprecedented in extent and significance are underway. This, among others, is due to the fact that the Hungarian government was the first in Eastern-Europe

Contrary to the opinion frequently voiced lately that the Hungarian privatisation has slowed down, I think that it has speeded up. There have been spectacular changes lately. These could take place after the Hungarian Parliament passed the Privatisation Act which came into force in June this year. Then, by the merger of the two former privatisation organizations, a single organization pursuing a unified privatisation philosophy could be set up and those important government decisions, which made the preparation of the tenders of the strategically important sectors possible, were taken.



The Hungarian privatisation has reached a crucial point. The most valuable assets are now on sale. The Hungarian government is aware of being the first to make this step in Eastern-Europe. The announcement of the tender invitations followed extraordinarily thorough preparations. We have realized that only foreign investors will be able to purchase the shares of the companies in the energy industry and telecommunication, which are of strategic importance considering the operation of the country. The Hungarian government would welcome the participation of all countries in the tenders. We expect that these investments of great value will be followed by further investments.

The invitations to bid for the largest companies of the electricity industry, six power suppliers, seven power stations and the Hungarian Electricity Works have been announced recently. This is the sector where developments in the value of several billions of dollars will be needed in the forthcoming years. Considering the remarkably keen international interest, we have good reason to presume that agreements beneficial for both the investors and the country may be reached. I think it a very important upgrading factor that the Hungarian electric energy system was connected to the Western-European UCTPE system in October. It is none the less noteworthy that according to an international study - which compares more than 300 nuclear power stations of the world - all blocks of the Hungarian nuclear power station in Paks are placed high, they are among the first 25.

Hungary's endeavour to diversify the purchase of energy is well-known to our partners and we are interested in the operation of a transit energy system. The new transit pipeline starting from Russia, for example, will in all probability cross Hungary. It is also common knowledge that the privatisation of the national oil company is underway and the tendering process for the five gas supplying companies is also well underway. The privatisation of the telecommunication also continues.

We strive for transparent, professionally correct transactions, therefore we work with the best known advisory firms of the world. Firms, which are also well-known in the countries where we expect the bidders to come from. For this reason the tendering process is in accordance with the international provisions and is based on technics known in the Western countries. The phase when the information documents were prepared was very intensive and a lot of interest was generated already in this period.

I consider it a positive phenomenon that the majority of the bidders are such multinational companies, which have been throroughy studying the companies put on sale for years now. I find it an interesting experience that a number of professional cooperation forms have become possible and these possibilities will remain open even if the firm in question possibly fails to acquire the selected Hungarian company.

The new privatisation act does not permit the subsequent intervention of the government. It is a fact, however, that this very act stipulates that the privatisation strategy of the most important companies is approved by the government. But the privatisation decision following the tender is taken in a sovereign manner by the Board of Directors of the APV Rt. (Hungarian Privatisation and State Holding Company), whose members are appointed by the government although the government has no direct representation in the Board. Under the law the government is not entitled to revise the decisions of the Board of Directors of APV Rt., and I can declare that nothing like that has happened since the new law came into force.

P.S. For further information, kindly contact APV Rt. Information Service:

H-1133 BudapestPOB: H-1399 Budapest, Pf. 708 Újpesti rakpart 31-33.Tel.: (36 1) 269-8990 HungaryFax: (36 1) 269-8991

### Big shake-up at the banks

Continued from facing page also sacked about 800 staff, including around 150 directors and heads of departments. He intends to reduce the number of employees to 2,500 from the present 3,400 by the middle of

The previous management accepted the restructuring plan but in fact never imple-

mented it," he says. Until now most Hungarian banks have concentrated on corporate customers: "This is still a cash society. Most Hungarians are underbanked and an electronic retail bank is something which barely exists at the moment. "We expect a lot of growth in this area. That's why this bank has a

future," Mr Jarai believes Others in the banking sector, however, believe many state banks are "unsellable" and that their importance will continue to decline as private and foreign banks expand. "They will become even smaller and disappear into oblivion," predicts a local investment banker.

Magyar Hitel Bank (MHB)

### Executives purged

When Mr Zsigmond Jarai took over as chief executive of Magyar Hitel Bank (MHB). one of Hungary's largest and most troubled state banks, in March, there were no fewer than 171 directors or department heads.

"I told them they were all sacked and that, in future, there would be only 45 directors and that they could all compete for these jobs. We rehired around 25," says Mr Jaral, who came to MHB from HongKong Shanghai Bank.

One of Hungary's most respected bankers, Mr Jarai previously worked at Budapest Bank and at the finance ministry as banking commissloner in the last communist era government in 1989-1990. He was persuaded to take on MHB by Mr Laszlo Bekesi, the former finance minister, and is being paid the minimum wage of Ft12.200 a month. His reward will come from the risyalue of share options if he succeeds in turning around the bank.

Despite being one of the main beneficiaries of the gov-ernment's \$3hn bank bail-out three years ago, MHB made

losses of around Ft3bn last year and is losing market share to the many new private and foreign banks operating locally. We have to cut costs, reduce labour, sell assets, reorganise procedures and set up a new bank," Mr Jarai says.

In just eight months, he has reduced the total workforce to 3,400 from 4,200 and plans to lay off a further 300 by the end of the year. He has also begun to move branches into smaller buildings and to sell off the bank's equity stakes in local companies, many of them acquired through debt-

for equity swaps. More importantly, the "bad bank" has been separated from the "good bank" and a start has been made on redrafting lending manuals and introducing new technology. "In the past, the internal structure was not changed and the same people were left lending to enterprises. If 50 per cent of the assets are bad, then something has to be

wrong," he says. The value in the restructured bank lies in its network of around 90 branches and a client list which includes some of Hungary's biggest corporations - Mav, the state railways, Maley, the national airline, and Matay, the telecommunications operator. Mr Jarai's aim is to create a

modern electronic retail bank. something which barely exists in Hungary today. "Most Hungarians receive their salaries in cash and do their shopping and pay their bills with cash," "With the right systems, we

could go to one of the big corporations and offer to do their payroll payments for them. This would give us thousands of customers immediately." Mr Jarai admits that If GE Capital takes over the rival

Budapest Bank, as expected

this would pose serious com-

petition to MHB as GE Capital is likely to pursue a similar strategy. "We know the local market better than they do and this would help us in the beginning. We also expect big growth in this area so there'll

be room for three of four main

players," he says. Virginia Marsh Foreign policy: by Anthony Robinson

# Idealism rooted in history

and codified the rights of

minorities - and to soothe the feathers ruffled by Mr Jozsef

Antall, Hungary's first non-

communist prime minister.

The late Mr Antall declared

after the 1990 elections that he

considered himself to be spiri-

tually responsible both for the

10m citizens of Hungary and

the 5m people of the ethnic

The socialist-led coalition

government reached a bilateral

agreement with Mr Vladimir

Meciar, the volatile Slovak

prime minister in March, but

this has vet to be ratified by

the Slovak parliament. No agreement has yet been

reached with Romania, where

continuing disagreement over

the concept of the collective

rights of minorities as opposed to their individual, human

rights, continues to block a

Meanwhile, Budapest is anx-

iously following the US-bro-

kered peace negotiations

between the warring former

Yugoslav states and assessing

the likely impact on Hungary's

relations with neighbouring

Before the war nearly 500,000

ethnic Hungarians lived in vil-

lages along the Danube in

Croatia and in the fertile plains

of the Serbian province of Voi-

Croatia and Serbia.

Hungarian diaspora.

National interests drive Hungary's passion for peace and unity in central Europe

Few people or governments care so passionately about minority rights as the Hungarians. This is not because they are unusually sensitive or idealistic. It stems from the 1920 Treaty of Trianon which turned millions of ethnic Hungarians into powerless minorities in neighbouring states after reducing Austria and Hungary to mere shadows of their former imperial splen-

The transfer of Translyvania to Romania and the loss of a swathe of largely ethnic Hungarian populated land all around the borders of the post-Trianon Hungarian state was a bitter blow. It bedevilled central European politics in the interwar years and ensured that a revanchist Hungary came into the second world war as an ally of Nazi Ger-

That alliance enabled the right wing dictator Admiral Miklos Horthy to ride in triumph on a white horse at the head of an occupying Hungarian army through Kosice, the regional capital of eastern Slorakia while Hungarian troops later massacred Serbs in the largely ethnic-Hungarian Serbian province of Vojvodina.

CZECH REPUBLIC

When the tide of war turned. thousands of ethnic Hungarians were expelled from Slovakia in 1944-5 and Yugoslav partisans slaughtered Vojvodina Hungarians in revenge. For 45 years such memories

were smothered under the blanket of enforced "proletarian internationalism". But the re-birth of national sovereignty after 1989 revived old memories and underlined the need for democratically elected governments in the region to work out a new modus vivendi. At the same time, however, the possibility that Hungary and its neighbours would one day become members of the European Union opened up new perspectives for a solution to the old ethnic rivalries within a broader European framework of porous frontiers and respect for civil, political and other

For these broader considerations, rather than merely for access to markets and investment, entry into the EU remains Hungary's top foreign policy objective. "We would like to be part of the first wave of enlargement, but in the company of as many of our neigh-bours as possible," says Mr Laszlo Kovacs, the foreign min-

When the new government came to power last year it first "basic treaties" with Slovakia and Romania which recognised

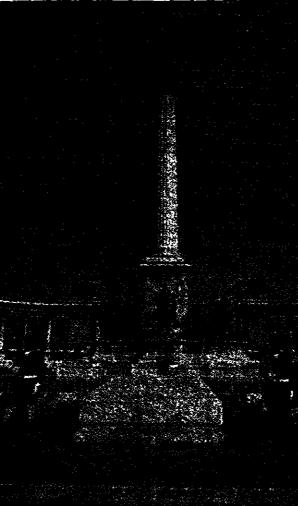
vodina. Thousands fled the fighting or slipped across the frontier to avoid military call-up. But hundreds of thouexisting frontiers, guaranteed sands still remain, mainly in pre-war ethnic balance is threatened by the influx of Serb refugees expelled this summer from the Krajina regions of Croatia or displaced by earlier fighting in Croatia

> Mr Horn, the prime minister, who spent six years in Belgrade as a Hungarian diplomat in the 1960s, underlined Hungarian concerns when he met Mr Slobodan Milosevic, the Serbian president, on an official visit to the Serbian capital following the Croatian army's summer blitzkrieg.

and Bosnia.

The conflicts in former Yugoslavia have already cost Hun-gary an estimated \$2bn in lost sales to its newly impoverished southern neighbours, the disruption of shipping along the Danube, the UN-imposed trade

COVEX Pharmaceutical company



Budapest monument: echoes of an imperial past

embargo on Serbia and the must apply European standiversion of road and rail traffic. Budapest has long ago ity groups must be treated on an equal footing and not be left at the mercy of the respective given up any hope of compensation but hopes that Hungarian enterprises would be able to play a useful and profitable majority groups," he says. role in assisting any post-war

reconstruction. But Mr Kovacs reflects Hungarian scepticism about the prospects for a lasting peace in former Yugoslavia without a determined effort by all the warring parties to tackle the underlying reasons for mistrust and commit themselves to respect and strengthen the human and civil rights of minorities after a new territorial agreement is reached, "We

seeking parners for

manufacturing and

distribution in

Hungary

Soviet Empire before deciding "we are delighted with our investment" in what is now a wholly owned GE subsidiary. Turnover has risen 75 per

In the late 1980s it had made the strategic decision to build a world-class lighting company and was seeking a European base. Hungary's state-owned Tungsram company was up for sale and several counts: • it had respectable market penetration in western

General Electric of the US did not wait for the fall of the

to make a big investment in

Hungary.

CASE STUDY GE and Tungsram

 35 per cent of its business was with other Comecon

 its network of factories had a reputation for high quality and high skill levels. In January 1990, GE paid \$150m for 50 per cent plus one share of the company and management control. It eemed reasonable at a time when few suspected that the 450m strong former Comecon market, to which Hungary

belonged, would simply graft western methods on to socialist-era enterprises.

Bank). Tungsram's largest minority shareholder, was incapable of funding the required injection of new

after buying the company and after spending around \$700m. including \$300m on new plant

and equipment, Mr Chuck Pieper, GE Lighting Europe's chief executive officer, says

cent since 1990, despite the collapse of sales to former Comecon countries and the unexpected problems caused by the impact of high domestic inflation and effective revaluation of the

countries:

implode and few, outside a handful of experienced traders in the region, had difficulties and additional costs involved in trying to

But in 1992, the company lost \$105m and Magyar Hitel Bank (Hungarian Credit losses and subscribing to the

Today, nearly six years

forint on a company which

exports 90 per cent of its

output. The key to the company's performance lies in "double

digit productivity gains for each of the last five years." says Mr Pieper. The labour force, 18,000 at the time of GE's entry into the company, is now down to around 10,000, despite the transfer to its seven Hungarian plants of roughly 1,000 jobs formerly filled at other GE Lighting group factories, including those of Thorn Lighting of the UK which GE took over in

For GE and other export-oriented companies the Bokros package", which was specifically designed to improve the export competitiveness of Rungarian-based companies, provided a welcome opportunity to capitalise on fficiency gains and heavy past investment.

"Hungary is now doing the right thing, working on competitiveness, and not trying to spend more than it saves," says Mr Pieper. But he insists that the crawling peg devaluation mechanism. which will cut the rate of

Worthwhile investment the expected decline in domestic inflation, will force companies to continue to raise productivity and efficiency and not rely on the one-off boost provided by the 20 per cent drop in the forint's external value over the first

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six months of the year. "Three years ago we were faced with a choice - either slow down the rate of change and investment in the face of high inflation and bureaucratic difficulties or speed up change and the search for higher productivity and efficiency. We opted to go faster, and it was the right decision. Here if you go slow you get eaten by ducks - the bureaucrats eat you up in

For GE, Hungary has become a centre for the research and development effort which has led to the design of a series of new low energy, long life lamps which are being produced in the sprawling former Tungaram plant at Nagykanisza, in south western Hungary close to the border with Croatia. The new range of compact

fluorescent lamps is turned out in a custom built \$30m plant for export to world markets. But the bulk of output still consists of conventional lightbulbs. With fierce competition in

the global lighting market from Osram, the lighting division of Siemens of Germany, and the **Dutch-based Philips group** which has invested heavily in Poland, GE is counting on its seven Hungarian plants to help it keep in the game.

forint devaluation in line with Anthony Robinson

Politics: by Anthony Robinson and Virginia Marsh

# Extremism kept at bay

For all their grumbling, most Hungarians prefer conservatives to

fanatics inexperlenced, non-socialist politicians from the Hungarian Democratic Forum and the Christian Demry's reform communists after the 1990 elections, were labelled as right-wingers, and

plight of the workers. They liberalised foreign trade, got privatisation under way and set up many of the

accused of indifference to the

But they also presided over an unsustainable rise in the cost of Hungary's bloated and inefficient welfare state which they felt politically too inse-

cure to touch. When the former communists, now re-packaged as leadership of Mr Gyula Horn, the former foreign minister, returned to power after the May 1994 elections, they pledged to complete the transi-tion to a market economy but make it less painful for those at the bottom of the social heap. It is a promise they are having much trouble honour-

ing.
The Socialist Party has a strong traditional wing linked to the trade unions. Its desire to ensure that privatisation revenues were channelled into social security funding in a socialist government's ability to pull powerful economic levers and defy the impersonal pressures exerted by global markets, delayed privatisation and led to the resignation of Mr Laszlo Bekesi, the monetarist finance minister.

But in March this year, faced with clear evidence that both

the current account of the hal-

ance of payments and the budget deficit were out of control and threatening a financial melt-down. Mr Horn was forced to call on the services of two non-socialist party bankers ready to draw up balanced budgets, impose fiscal and monetary discipline and present Hungarians with a stiff

dose of financial reality. Mr Horn, strongly defends is new policies. "I am accused of pursting very right-wing policies. These are not right wing policies, they are realistic policies. We have to pursue them. If we don't no one will be able to save Hungary. This is the reality, there is no alternative," he says.

Economically the March package appears to be working. By 1997 the results should be clear to all. By the time elections come around again in 1998 the electorate may be prepared to admit that the gain was worth the pain. But not

At present the electorate is feeling sorry for itself and the Socialist Party, which tripled its support to win 33 per cent of the votes and 54 per cent of the seats in last year's elections, is deeply unpopular. The Free Democrat party, the second largest party, which swal-lowed its ideological objections and agreed to form a coalition ernment with the Socialists last July, has also lost ground. But together the coalition parties control 72 per cent of seats in parliament and can ride out

temporary unpopularity. The polls meanwhile show that the populist, anti-socialist tirades from Mr Jozsef Torgyan, leader of the smallhold ers party, are what Hungarians like to listen to now. The party has traditionally been based in a countryside which over the last five years has been confused and hurt by the loss of Soviet bloc markets and the disintegration of the old co-operatives. Now it has a following in the disgruntled cities as

well. For all their grumbling, however, Hungarians do not vote for extremists, notes Mr Tibor Vidos, a political consultant. The right wing nationalists led by Mr Istvan Csurka found this to their cost at the last elections. Instead Hungarians tend to be conservative, middle of the road voters.

That is why they voted Socialist at the last elections, Young Democrats, the youth party led by Mr Viktor Orban, failed to make what it hoped would be a leap into the big league. Mr Orban, an engaging and thoughtful 32 year-old, hoped to emulate Spain's Felipe Gonzalez and leapfrog the generation brought up

The electorate perceived him

under a totalitarian regime.

"Only around 25-30 per cen of the population are commit-ted to particular parties. The fight is still on for around 60 per cent of the vote," he says. established electoral behaviour. Hungarian politics will only take on a recognisable shape if privatisation is completed by the time of the 1998

as too young and his party as

trying to put together a liberal-

right wing alternative to the

Socialists by strengthening ties

with the Christian Democrats

and the Hungarian Democratic

Forum. It is proving an uphill

elections" he argues. Time will tell, but three years is a long time in politics.

The Budapest Metropolitan Property Management Centre Co. is inviting professional investors

The Property Management Centre is a one-man joint stock company established by the City Municipality of Budapest, capital of Hungary for managing and utilising its saleable properties. According to Péter Schneider, the recently appointed General Manager of the Company this means extremely far-reaching activities which may be divided into three categories.

First of all the portfolio office represents the City Municipality in more than two hundred companies owned by the City. The Company manages these properties with the nominal value of altogether more than ten billion HUF and asserts the special owner's interests of the City. These properties belong to different kind of companies, among them hotels, such as the Kempinsty Hotel Corvinus Budapest and hakaries and dairies, etc.

Another main profile of this company is the property utilisation and the sale of properties. Among these there are properties in the green belt of Buda as well as sites for industrial purposes. The company is responsible for the sale of the last free property on the left bank of Danube in Budapast downtown area. Now the company is looking for investors for this project.

In accordance with the intention of the City Municipality the income from the sales will be used for realising aims to develop Budapest. And finally this company co-ordinates the transformation of the firms of the City into shareholder companies and will take part with its expertise in their following privatisation. Ten of these public utility companies — among them the Metropolitan Gas Works and the Metropolitan Water Works — already operate as joint stock companies. Another five of them, as for instance the Sudapest Transport Enterprise and the Budapest Public Domain Maintenance Enterprise will be transformed in the near future.

The company is engaged in other fields of activities as well and it has wide international contacts.

For further information please contact: Budapest Metropolitan Property Management Centre Co. H-1134 Budapest, Váci út 23-27. Tel.: (36-1) 148-6180 Fax: (36-1) 120-1278

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